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Strict Liability and Negligence in Copyright Law: Fair Use as Regulation of Activity Levels

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Apostolos G. Chronopoulos*

Strict Liability and Negligence in Copyright Law: Fair Use as Regulation of Activity Levels

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I. INTRODUCTION

Copyright infringement is a tort.¹ As such, it aims at prompting third parties to consider the specific social costs associated with some types of unauthorized dealing with works of authorship, by holding them liable in tort for actions that undermine the creative incentives of authors. Any attempt to explain the rationale behind the choice of standards for copyright liability and the nature of the fair use doctrine could therefore gain valuable insight from the general theory and economic analysis of tort law, in particular accident law.²

Copyright law internalizes benefits to spur creative activity, thereby mirroring the internalizing function of tort law,³ which internalizes costs with a view to inducing third parties to exercise care so as to avoid harming another.⁴ Dealing with copyrighted works of authorship could be paralleled with “risky behavior” that threatens to cause an “accident” in the form of reduced authorial incentives. Much like the law of accidents, the standard for copyright liability must reflect considerations pertaining to the efficient precautions that the potential infringers have to take to avoid accidents.⁵ Copyright

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1. *Metro-Goldwyn-Mayer Distrib. Corp. v. Fisher*, 10 F. Supp. 745, 747 (D. Md. 1935) (“The violation of a copyright is classed as a tort and for injunctive purposes may be considered analogous to trespassing on real estate.”).
 2. Wendy J. Gordon, *Copyright as Tort Law’s Mirror Image: Harms, Benefits, and the Uses and Limits of Analogy*, 34 *McGEORGE L. REV.* 533 (2003) [hereinafter Gordon, *Copyright as Tort Law’s Mirror Image*].
 3. *Id.* at 535. On the internalizing function of tort law, see generally DANIEL H. COLE & PETER Z. GROSSMAN, *PRINCIPLES OF LAW & ECONOMICS* 270 (2d ed. 2011); JEFFREY L. HARRISON & JULES THEEUWES, *LAW & ECONOMICS* 252–53 (2008).
 4. As suggested by Wendy J. Gordon, the structure of copyright protection is consistent with the common law’s entitlement patterns. Wendy J. Gordon, *Of Harms and Benefits: Torts, Restitution, and Intellectual Property*, 21 *J. LEGAL STUD.* 449, 450 (1992). She makes the point that, for the purposes of cost-benefit analysis, harms and benefits are treated the same. *Id.* at 451. There is also no inconsistency with the general rule of restitution law excluding payments for voluntary actions benefitting others because both legal institutions promote the formation of contracts. Restitution law provides the volunteer with an incentive to propose a deal before benefitting anyone. Through the grant of an exclusive right in works of authorship, copyright law empowers authors to seek rents in the markets for the original work or its derivatives. *Id.* at 472–73.
 5. Oren Bracha & Patrick R. Goold, *Copyright Accidents*, 96 *B.U. L. REV.* 1025, 1037–40 (2016) (providing an anatomy of the copyright accident; examining liability for dealing with earlier works in those cases where at the time the infringing act occurred, only a risk of infringement existed because the copyrighted status of the appropriated material was unknown to the alleged infringer or could only be ascertained through measures that were not cost-efficient; and sug-

provisions are concerned with both authors' and potential infringers' activity levels remaining optimal from a social welfare perspective. The choice of a proper liability standard is pivotal to achieving copyright's utilitarian purposes. Policymakers, legislators, and courts have a wide array of options at their disposal, including strict liability, negligence and its various forms, or a combination thereof.

It seems that the closest parallel that can be drawn to the law of accidents would be the one conceptualizing copyright infringement as a bilateral accident with variable activity levels.⁶ The probability of an accident increases as potential copyright infringers seek to maximize their own utility by raising their levels of activity in dealing with copyrighted works without the author's permission. On the other hand, some of those unauthorized uses may turn out to be beneficial to social welfare because they promote cultural or expressive values, for instance. Activity levels of authors are also variable in that they correspond to the level of incentives generated by the system of copyright protection.

Copyright infringement is considered to be a strict liability tort.⁷ Legal scholarship has challenged this fundamental tenet of copyright law predominantly on two grounds. First, the regime of strict liability affirming liability in cases of inadvertent plagiarism allegedly broadens the scope of the right in a disproportionate manner that threatens to suppress independent creation.⁸ Second, by requiring evidence of harm in order to find infringement, the doctrine of fair use essentially renders copyright infringement a tort based on negligence.⁹

gesting that such accidental copyright infringement should be subjected to a negligence standard that gives "due weight" to such risk).

6. Cf. Gordon, *Copyright as Tort Law's Mirror Image*, *supra* note 2, at 537.
7. *Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191, 199 (1931); *De Acosta v. Brown*, 146 F.2d 408, 412 (2d Cir. 1944) ("[T]he protection accorded literary property would be of little value if it did not go against third persons, or if, it might be added, insulation from payment of damages could be secured by a publisher by merely refraining from making inquiry."); PAUL GOLDSTEIN, 2 GOLDSTEIN ON COPYRIGHT § 7.0.1, at 7:3–7:4 (1996) (noting how liability insurance can protect third parties against the harshness of that rule); WILLIAM F. PATRY, PATRY ON COPYRIGHT § 21:38 (2018) (highlighting the requirement of volitional conduct).
8. Dane S. Ciolino & Erin A. Donelon, *Questioning Strict Liability in Copyright*, 54 RUTGERS L. REV. 351 (2002); Avihay Dorfman & Assaf Jacob, *Copyright as Tort*, 12 THEORETICAL INQUIRIES L. 59 (2011) (considering strict liability as an inappropriate rule for protecting intangible property because of the difficulties associated with demarcating the boundaries of such property and signaling ownership; in contrast, tangible property is easier to demarcate). For a general critique on the enforcement of the strict liability rule against innocent infringers, see Kent Sinclair Jr., *Liability for Copyright Infringement—Handling Innocence in a Strict-Liability Context*, 58 CALIF. L. REV. 940 (1970).
9. Patrick R. Goold, *Is Copyright Infringement a Strict Liability Tort?*, 30 BERKELEY TECH. L.J. 305 (2015); Steven Hetcher, *The Immorality of Strict Liability in Copyright*, 17 MARQ. INTELL. PROP. L. REV. 1, 5–13 (2013) (invoking the general argument of liability being immoral unless based on fault to support the proposition

In this Article, I argue that the tort of copyright infringement constitutes a mixed system of liability, which resorts to both strict liability and negligence to achieve the utilitarian aim of promoting the progress of science and the useful arts, as instructed by the Intellectual Property Clause of the Constitution.¹⁰ Indeed, copyright infringement is structured to mirror trespass upon property, while the fair use doctrine operates as a negligence standard optimizing activity levels involving some form of dealing with an earlier work—such as incremental authorship, critical commentary, news reporting, or the development of new technologies—which the exclusive right in that work is not supposed to suppress. In this Part (Part I), I briefly summarize the main points of my argument.

Turning to the economics of accident law facilitates the analysis by highlighting the possible advantages and disadvantages of the various standards of liability with respect to the avoidance of accidents and the inducement of optimal activity levels (Part II). The analysis shows that both strict liability and negligence are vital to the implementation of the copyright system's goals. In order to secure incentives for the production of authorial works, copyright confers upon its owner a profit-maximizing opportunity in the form of a property right capable of being traded. Reliance investments in the creation of new works of authorship cannot be effectively induced unless (1) the intangible subject matter of property is precisely demarcated and (2) it is guaranteed to the author, as a matter of principle, that he or she will be able to obtain the economic benefit of the full market value for his or her creation. For these reasons, strict liability for trespassing upon copyright property should be the default rule.

that copyright infringement is in fact a tort based on negligence); *see also* Wendy J. Gordon, *The Concept of "Harm" in Copyright*, in *INTELLECTUAL PROPERTY AND THE COMMON LAW*, (Shyamkrishna Balganesh ed., 2013) (suggesting that the concept of harm itself undoubtedly justifies redress when rivalrous diversion of customers comes into play, whereas the copyright owner would have to substantiate harm himself or herself in cases where the infringement claim relates to foregone licensing opportunities; explaining that this could at times require the courts to look at a plaintiff's personal situation and ascertain some sort of "grave need" to internalize foregone benefits; and examining the issue also from a philosophical perspective to eloquently canvas the types of harm that would be actionable under a reformulated tort of copyright infringement, which would require plaintiffs to prove harm including subjective distress). Others consider that the availability of the fair use defense results in a number of copyright disputes being resolved on the basis of a flexible standard and not a rule. *See* Christopher Sprigman, *Copyright and the Rule of Reason*, 7 *J. TELECOMM. & HIGH TECH. L.* 317 (2009) (drawing parallels to antitrust analysis and suggesting that liability should be designed to include dealings with earlier works that are per se infringing and secondary uses that must be subjected to the scrutiny of a rule of reason analysis based on the four factors set out in section 107 of the Copyright Act with the plaintiff bearing the burden of proof).

10. U.S. CONST. art. I, § 8, cl. 8.

In addition, I argue that copyright's purpose of generating incentives for creativity is better achieved through general and abstract norms rather than flexible standards. On the other hand, the constitutional mandate from which copyright law derives its legitimacy rests on the premise that some dealings with copyrighted works should be permitted even during the copyright term to create a "breathing space," which eventually maximizes social welfare. Those activities, examples of which are listed in the preamble of section 107 of the Copyright Act,¹¹ should be subjected to a negligence standard because they are of such a nature that they should be carried out as frequently and intensively as possible. A negligence standard is apt to serve this purpose. Fair use mirrors negligence in that it allows third parties to engage in socially desirable activities while imposing on them obligations to exercise care toward the legitimate interests of the copyright owner. Importantly, the nature of the fair use doctrine as a negligence standard allows for optimal decentralization effects as it makes it possible for the courts to apply personalized standards of care. I argue that the application of the fair use doctrine by the courts reflects that approach (Part III).

Subsequently, I analyze the legal nature of fair use as a negligence standard (Part IV). Firstly, I examine the reasons for subjecting the duty imposed on third parties not to trespass upon the copyright owner's property right and their socially desirable dealings with earlier works to different liability standards. It would actually be impossible to use one single standard of liability. Strict liability would suppress socially desirable activities such as critical commentary. And negligence would not be an efficient standard for inducing optimal creative incentives. I take the opportunity to stress that strict liability is indispensable also because it is capable of creating social norms that would give rise to social environments in which copyrights are respected. It is only through abstract and general rules commanding immediate and unanimous agreement that the internalization of norms can eventually be achieved. Then, I look more closely at the

11. Copyright Act § 107, 17 U.S.C. § 107 (2012) ("Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.").

nature of fair use as a negligence standard. In particular, I examine its operation as an *ex post* negligence standard, its capacity to factor in the effect of the adopted standard on innovation, and its commonalities with the structured balancing test of general tort law. The fair use calculus reflects a rule of reason, which requires the copyright owner to forego some of his or her economic benefits in some contexts where the exemption of socially desirable secondary uses from copyright liability would maximize social welfare. This presupposes, however, that the exemption of specific dealings with earlier copyrighted works will not disproportionately reduce creative incentives by barring copyright enforcement.

In that regard, I argue that the four statutory factors set out in section 107 of the Copyright Act may be perceived not only as representing the equities driving the application of copyright's rule of reason but also as dimensions of care. This is because they essentially circumscribe, for instance, the amount of permissible copying in both quantitative and qualitative terms or the extent to which the secondary user may encroach upon the plaintiff's markets without infringing the earlier copyright. Reflecting a negligence calculus, the assessment of fair use does not lend itself to categorical presumptions and requires a meticulous correlation of all relevant factors within the framework of a structured balancing test. I also argue that the procedural nature of fair use as an affirmative defense is dictated by the need to enforce the substantive law mandate encapsulated in copyright's rule of reason.

In this same Part (Part IV), I also take the opportunity to make some general observations about the nature of the fair use adjudication process. Constituting copyright's rule of reason, the incentives-access paradigm fosters a type of decision making known as "rule-sensitive particularism."¹² While the assessment takes into account the specifics of the individual case, it should not undermine the general rule that authors should be granted property rights in their works as a means to induce creativity. As academic scholarship has already observed, fair use has gained a lot in predictability through the years. Some general principles have been obtained from the consistent treatment of specific categories of uses by courts that already conducted fair use assessments. Arguably, the fair use standard has in the meantime accommodated some "rule-like" aspects in the sense that we are now able to tell with a considerable amount of certainty how some types of secondary uses are going to be assessed in the context of a fair use analysis. This does not mean, of course, that the courts may bypass the analysis of the four factors.

12. Frederick Schauer, *Rules and the Rule of Law*, 14 HARV. J.L. & PUB. POL'Y 645, 649-50 (1991).

Another implication of the nature of fair use as a negligence standard is that it induces the copyright owner to exercise care himself or herself so as to minimize the risk of reduced authorial incentives. Given that the defendant will escape liability if he or she complies with the standard emerging from the fair use analysis, the copyright owner qualifies as the ultimate bearer of the accident's costs. Hence, the copyright owner will have an incentive to do anything that could minimize the potential loss, including the development of a market that has not yet been exploited or some sort of positive action toward the elimination of transaction costs that deprive the copyright owner of licensing revenue—just to name two examples where the negligence standard implemented by the fair use doctrine prompts the copyright owner to exercise care. The analysis presents fair use as a negligence standard adopted to address a bilateral accident where both injurers and victims may minimize the costs associated therewith by exercising due care and adjusting their activity levels.

After sketching the nature of copyright infringement as a mixed system of liability, I seek to illustrate the analysis with examples taken from important fair use precedents (Part V). In my concluding Part, (Part VI), I argue that it is not necessary to restructure the tort of copyright infringement to mirror negligence in order to avoid the over-enforcement of copyright. As they stand now, the rules on copyright infringement provide for a legal framework in which all equities involved may effectively be balanced in light of copyright's utilitarian aims. Policy disagreements may well be discussed and resolved within the current legal framework. However, because this framework is developing, it requires further analysis.

To maintain the flow of my argument and focus on its essential aspects, I shifted part of the analysis to the footnotes of my Article, where I occasionally discuss some issues in more detail and review opposite or complementary lines of argumentation.

II. STRICT LIABILITY AND NEGLIGENCE IN THE LAW OF ACCIDENTS

In this Part, I briefly review the effectiveness of strict liability and negligence standards in inducing economically justifiable precautions when one engages in risky behavior.¹³ Drivers, for instance, may reduce the probability and, therefore, the social costs of accidents by increasing the level of care they exercise while driving their cars. Increments in care are socially beneficial as long as the marginal cost to drivers remains lower than the marginal benefit in reducing the

13. *See generally* STEVEN SHAVELL, FOUNDATIONS OF ECONOMIC ANALYSIS OF LAW 177–206 (2004).

probability of an accident.¹⁴ Accordingly, the aggregate welfare of drivers (injurers) and pedestrians (victims) is maximized when drivers are incentivized to exercise a moderate degree of care. Social welfare is then maximized exactly because the expected total cost of accidents is minimized.¹⁵

A. Unilateral Accidents: Care and Activity Levels

First, let's examine how tort law seeks to induce injurers into exercising the optimal level of care by holding them liable for causing an accident on the basis of a predetermined standard of liability.¹⁶ It is assumed that the injurers cannot alter their activity levels by choosing to drive more or less frequently, for instance.

In the absence of liability, there is no economic incentive for drivers to exercise care toward the interest of third parties.¹⁷ The costs of precaution would then have to be borne by the victims.¹⁸ Under a strict liability standard, injurers have an incentive to exercise moderate care.¹⁹ They cannot escape liability and incurring the costs of moderate care minimizes their combined costs of taking precautions and paying for accidents they might cause.²⁰ Under a negligence regime, injurers have the possibility of avoiding any liability by acting according to a standard of reasonableness, which at least from the standpoint of the economic analysis of law, can only implicate a duty to exercise care at a moderate level since that is the degree of care that minimizes the social costs of accidents.²¹ As already indicated, injur-

14. ROBERT COOTER & THOMAS ULEN, *LAW & ECONOMICS* 201 (6th ed. 2012); RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 192–93 (9th ed. 2014).

15. GUIDO CALABRESI, *THE COSTS OF ACCIDENTS: A LEGAL AND ECONOMIC ANALYSIS* 26–29 (1970); COLE & GROSSMAN, *supra* note 3, at 272; *see also* Robert Cooter, *Unity in Tort, Contract and Property: The Model of Precaution*, 73 CALIF. L. REV. 1 (1985) (arguing that the “equity goal of compensating victims and the efficiency goal of minimizing costs to society as a whole” are separate but complementary legal principles (emphasis added)). It is not always desirable to eliminate the risk of accidents, especially when some social benefit may be derived from some risky or even negligent activity. Therefore, some accident probability should be tolerated in most cases. *See* ALAN DEVLIN, *FUNDAMENTAL PRINCIPLES OF LAW AND ECONOMICS* 66–68 (2015).

16. COOTER & ULEN, *supra* note 14, at 201; THOMAS J. MICELI, *THE ECONOMIC APPROACH TO LAW* 19 (3d ed. 2017).

17. SHAVELL, *supra* note 13, at 179.

18. COOTER & ULEN, *supra* note 14, at 201.

19. SHAVELL, *supra* note 13, at 179–80.

20. COOTER & ULEN, *supra* note 14, at 203.

21. Richard A. Posner, *A Theory of Negligence*, 1 J. LEGAL STUD. 29, 32–33 (1972) (arguing that Judge Learned Hand “unwittingly” sketched the economic underpinnings of the negligence standard in *United States v. Carroll Towing Co.*, 159 F.2d 169 (2d Cir. 1947), where he ruled that a defendant should be liable if the expected cost of the accident exceeds the cost of precaution (B). An accident’s expected cost is calculated by multiplying the probability of an accident (P) with a

ers would take the efficient amount of precautions even under strict liability, since they have an economic incentive to act toward minimizing their own cost of taking precautions.²² Hence, in the case of unilateral accidents with fixed activity levels, both strict liability and negligence standards are capable of creating incentives for injurers to act in their own best interest toward the achievement of the socially efficient outcome.²³

Choices between the two alternative standards may be driven by various considerations.²⁴ Strict liability would be preferable to negligence, for instance, where the courts do not possess the requisite information to assess the optimal precaution costs.²⁵ Strict liability, on the other hand, tends to increase the costs of the judicial system since the prospect of successful litigation encourages victims to sue.²⁶ Negligence may, however, impose higher administrative costs than strict liability where disagreements over whether due care has been exercised—and therefore the probability of a trial—are more likely or where the cost of finding out what amounts to an efficient amount of precaution is particularly high.²⁷

Accidents may not only be avoided through the exercise of precautions. Injurers could also minimize the risk of accidents by reducing the degree to which they engage in dangerous activity.²⁸ They could drive less, for instance. On that account, potential copyright infringers could decrease the risk of creative incentives being reduced as a result of their activity by reducing the frequency or the intensity with which they are dealing with works of authorship.

Generally speaking, activity levels tend to be excessive both under a rule of no liability and under a negligence standard. If the injurers

value representing the magnitude of the potential harm (L). Hence, liability emerging from the negligence calculus can be expressed in the following algebraic formula: $B > PL$).

22. COOTER & ULEN, *supra* note 14, at 206.

23. A. MITCHELL POLINSKY, AN INTRODUCTION TO LAW AND ECONOMICS 46 (4th ed. 2011); SHAVELL, *supra* note 13, at 181.

24. MICELI, *supra* note 16, at 22–23.

25. DEVLIN, *supra* note 15, at 71; POLINSKY, *supra* note 23, at 46.

26. STEVEN SHAVELL, ECONOMIC ANALYSIS OF ACCIDENT LAW 264 (1987).

27. Hans-Bernd Schäfer & Frank Müller-Langer, *Strict Liability Versus Negligence*, in TORT LAW AND ECONOMICS: ENCYCLOPEDIA OF LAW AND ECONOMICS 24 (Michael Faure ed., 2d ed. 2009); *see generally* POLINSKY, *supra* note 23, at 55; POSNER, *supra* note 14, at 208; *see also* DEVLIN, *supra* note 15 (noting that while the average cost of a strict liability case may be lower, it is likely that the total costs of strict liability cases exceed, under some circumstances, that of cases decided under a negligence standard).

28. Mitchell A. Polinsky, *Strict Liability vs. Negligence in a Market Setting*, 70 AM. ECON. REV. 363 (1980) (discussing excessive entry under negligence rules and suggesting that the problem could be solved if the negligence standard takes into account each firm's level of care and output); Steven Shavell, *Strict Liability Versus Negligence*, 9 J. LEGAL STUD. 1 (1980).

are not bound to be held liable or can simply avoid liability by exercising due care, then they are also not likely to consider reducing their levels of activity.²⁹

Notably, the marginal utility derived from increments in activity gradually diminishes. Under a strict liability regime, rational injurers have an economic incentive to act efficiently, since the negative externalities of their activity will be fully internalized. They are under a legal obligation to compensate for any accident losses they might impose on victims. Hence, injurers would engage in risky behavior only to the extent that marginal profits outweigh marginal costs, including the cost of precaution, which is also the efficient outcome for society.³⁰

At first glance, strict liability seems to be superior to negligence in inducing the optimal amount of activity levels.³¹ However, this would only be valid when the reduction of a defendant's activity levels is indeed the welfare-maximizing solution.³² Furthermore, where injurers are risk-averse toward the prospect of liability, which is very often the case, it is expected that activity levels would be suboptimal.³³ Hence, in the copyright context, strict liability is likely to have a deterrent effect upon socially desirable dealings with copyrighted works, such as parodies or transformative uses that increase social welfare. Fair use and the other limitations to copyright seek to avoid the over-deterrence of third party dealings with earlier works of authorship.

B. Bilateral Accidents: Care and Activity Levels

Often, accidents would not be attributed to only one party since both injurers and victims may be capable of taking precautions. The social costs of accidents could be further minimized when both parties exercise moderate care.³⁴ This occurs when both parties invest in precautions up to the level where their marginal cost equals the marginal benefit they generate in reducing—but not necessarily eliminating—the probability of an accident.³⁵

The choice of a liability standard affects the equilibrium of the game of strategic interaction into which injurers and victims engage themselves.³⁶ In the absence of any liability, victims would not ration-

29. Shavell, *supra* note 28, at 12.

30. *Id.* at 11.

31. COOTER & ULEN, *supra* note 14, at 212; POLINSKY, *supra* note 23, at 51–52.

32. William M. Landes & Richard A. Posner, *The Positive Economic Theory of Tort Law*, 15 GA. L. REV. 851, 876–77 (1981).

33. SHAVELL, *supra* note 13, at 260–61.

34. COOTER & ULEN, *supra* note 14, at 205; HARRISON & THEEUWES, *supra* note 3, at 270; John Prather Brown, *Toward an Economic Theory of Liability*, 2 J. LEGAL STUD. 323 (1973).

35. SHAVELL, *supra* note 13, at 182–83.

36. COOTER & ULEN, *supra* note 14, at 205; DEVLIN, *supra* note 15, at 72; HARRISON & THEEUWES, *supra* note 3, at 276; SHAVELL, *supra* note 13, at 182–83.

ally do anything else other than exercise moderate care as it is them who bear the total cost of accidents.³⁷ Under strict liability, injurers' best choice is apparently to exercise moderate care since the victims' dominant strategy is not to exercise optimal care.³⁸ To induce the victims to do their part in reducing the potential cost of accidents, a defense of contributory negligence is necessary.³⁹

In contrast, a negligence standard imposing a duty to exercise moderate care on injurers would prompt both parties to take optimal precautions.⁴⁰ Injurers have an obvious incentive to exercise moderate care, otherwise they would have to incur the total costs of accident losses. Given that injurers will escape liability if they comply with the duty of care imposed on them, victims have to act toward minimizing their own potential accident losses.

The efficient outcome can also be achieved, as already suggested, under strict liability with contributory negligence.⁴¹ Again, the victims' failure to take the precautions necessary to minimize the expected social cost of accidents would bring them into a position where they would have to bear a significant part of an accident's costs. Thus, exercising moderate care is the victims' dominant strategy, which in turn induces injurers to exercise moderate care as well.⁴² The same is valid under strict liability with comparative negligence.⁴³ Victims would not be able to recover that part of the loss which amounts to the percentage that their negligent behavior contributed to the total loss. Accordingly, victims have an incentive to incur the costs of moderate care because these are lower than the (partial) loss that would have to be sustained later on as a result of their negligent behavior—that is, their failure to minimize the social costs of accidents. Injurers then have no choice other than exercising moderate care since the victims' dominant strategy is to avoid comparative fault. Otherwise, they would have to face liability for an accident's total costs. Both types of negligence lead to the efficient outcome.⁴⁴

Let's now turn to appreciate what liability standard leads to the efficient outcome when both parties can take precautions and regulate their activity levels to minimize the expected costs of accidents.

Absent liability, injurers would neither take precautions nor restrict their activity levels. Victims would, of course, seek to minimize their own expected costs.⁴⁵ Conversely, strict liability induces victims

37. HARRISON & THEEUWES, *supra* note 3, at 280; SHAVELL, *supra* note 13, at 183–84.

38. HARRISON & THEEUWES, *supra* note 3, at 281; SHAVELL, *supra* note 13, at 184.

39. POLINSKY, *supra* note 23, at 49.

40. MICELI, *supra* note 16, at 25; SHAVELL, *supra* note 13, at 185–86.

41. SHAVELL, *supra* note 13, at 184–85.

42. HARRISON & THEEUWES, *supra* note 3, at 281–83.

43. SHAVELL, *supra* note 13, at 187.

44. HARRISON & THEEUWES, *supra* note 3, at 283.

45. DEVLIN, *supra* note 15, at 80.

to refrain from exercising optimal care and increase activity levels while injurers will seek to exercise due care and reduce activity levels.⁴⁶

A liability standard based on negligence would indeed provide incentives for injurers to exercise the optimal degree of care but at the same time allow them to engage in excessive activity levels.⁴⁷ In this case, the imposition of care duties on victims, be it in the form of contributory or comparative negligence, would not have any effect on the injurers' dominant strategy.⁴⁸

An attempt to make both parties coordinate their behavior toward the efficient outcome through the choice of strict liability with either contributory or comparative negligence as the governing standard is also unlikely to succeed.⁴⁹ Victims will exercise due care but excessively raise the level of their activity. Injurers, on the other hand, are incentivized to take the efficient precautions and regulate their activity levels optimally. As noted while examining unilateral care scenarios with variable activity levels, strict liability does not necessarily induce injurers to engage in the relevant activity at an optimal degree. Risk averse injurers, for instance, would tend to lower their activities below the efficient level.

All this suggests that when it comes to accidents, the expectable cost of which can be reduced through measures taken by both injurers and victims, there is no standard of liability capable of inducing all parties involved to generate the efficient outcome by undertaking cost-justified precautions and optimizing their activity levels.⁵⁰ Strict liability tends to reduce the levels of activity. Therefore, it is relied upon where the reduction of activity levels is desirable.⁵¹

C. The Challenges of Regulating Levels of Activity

The determination of optimal activity levels is a daunting task.⁵² Obtaining information as to how much potential injurers should drive, for instance, is particularly costly, if possible at all. It would normally be more feasible to ascertain what the cost-justified precautions are in such a case. For this reason, it is also extremely difficult to create neg-

46. COOTER & ULEN, *supra* note 14, at 212; DEVLIN, *supra* note 15, at 80–81.

47. COOTER & ULEN, *supra* note 14, at 212; MICELI, *supra* note 16, at 38–39; POLINSKY, *supra* note 23, at 52–53.

48. SHAVELL, *supra* note 13, at 202.

49. *Id.* at 201–02.

50. Shavell, *supra* note 28, at 23.

51. COLE & GROSSMAN, *supra* note 3, at 301–03; POSNER, *supra* note 14, at 206–07 (indicating that strict liability is the appropriate means for creating optimal incentive structures related to levels of activity when it comes to ultrahazardous activities); Shavell, *supra* note 28, at 23.

52. Shavell, *supra* note 28, at 22–23.

ligence standards of due care that would reflect considerations related to the optimality of activity levels.

Furthermore, a standard of liability might be particularly apt for inducing the optimal degree of care to which potential injurers are obliged without at the same time necessarily constituting the proper standard for regulating levels of activity.⁵³ On top of that, activity levels themselves might be multidimensional in the sense that risky behavior might be the result of various diverse activities that cannot be simultaneously regulated by the adoption of a common standard.

All this suggests that the optimal strategy would in many cases entail the adoption of a single standard of liability for inducing the optimal amount of care and a separate standard—or even various standards—for optimizing diverse types of activity levels.⁵⁴ Ideally courts should establish, where possible, separate standards inducing the optimal levels for specific activities.⁵⁵

III. STRICT LIABILITY AND NEGLIGENCE IN COPYRIGHT

Rather than mirroring negligence, it is submitted that the tort of copyright infringement constitutes a “mixed” system of liability, which relies on strict liability to generate optimal incentives for creativity while adopting negligence standards to secure optimal activity levels for dealings with earlier works that the copyright owner could not suppress without undermining the public interest.

A. The Case for Strict Liability in Copyright Law: Generating Authorial Incentives

Copyright internalizes many of the positive externalities of creative works.⁵⁶ In principle, third parties may not enjoy the utility derived from a given work of authorship without the author’s consent. In fact, copyright internalizes the benefits that authors generate for society from the moment that their works are fixed on a tangible medium of expression.⁵⁷ The creation of such an exclusive legal position is designed to bring about markets for authorial works endeavoring to in-

53. POLINSKY, *supra* note 23, at 50–54.

54. CENTO G. VELJANOVSKI, *ECONOMIC PRINCIPLES OF LAW* 197–98 (2007).

55. *Cf.* Stephen G. Gilles, *Rule-Based Negligence and the Regulation of Activity Levels*, 21 J. LEGAL STUD. 319 (1992) (arguing that the courts can rely on safety regulations, custom, or even common general knowledge to create rules about the reasonableness and the optimal levels of specific activities, which would then be applied to negligence cases where it is proper to adjust activity levels in order to minimize the expected costs of accidents; and suggesting that such proxy rules would ameliorate the difficulties courts have in finding appropriate standards for regulating activity levels).

56. *See generally* Wendy J. Gordon, *Intellectual Property*, in *THE OXFORD HANDBOOK OF LEGAL STUDIES* 617 (Peter Cane & Mark Tushnet eds., 2005).

57. Copyright Act § 102(a), 17 U.S.C. § 102(a) (2012).

centivize the production of those goods and, at the same time, allow for their dissemination.⁵⁸ And the ultimate aim is to promote the progress of science and the useful arts.⁵⁹

Copyright's challenge is to create a package of benefits that would be sufficient for maintaining incentives to produce creative works without internalizing those benefits that are essential to incremental authorship and whose public use promotes the utilitarian purposes of copyright protection. Since those benefits are not directly quantifiable but must be determined in abstract terms, for the creative behavior of an indefinite number of potential authors to be steered effectively copyright provisions seek to devise an optimal "incentives package" by demarcating the boundaries of intangible property with as much clarity and precision as possible.⁶⁰ Analogous to the law of real property, copyright law enables authors to fence their property within some prescribed limits so as to extract benefits from its exploitation.

Intangible property manifests itself when fixed in a tangible medium of expression.⁶¹ However, the package of benefits meant to induce the production of creative works does not include those benefits that remain external as a consequence of copyright principles, such as the idea/expression divide,⁶² the merger doctrine,⁶³ or the exemption from liability of independent creation.⁶⁴ Further, the boundaries of the author's property are marked by the scope of the exclusive rights

58. Wendy J. Gordon, *An Inquiry into the Merits of Copyright: The Challenges of Consistency, Consent, and Encouragement Theory*, 41 STAN. L. REV. 1343, 1384–94 (1989) [hereinafter Gordon, *An Inquiry into the Merits of Copyright*].

59. U.S. CONST. art. I, § 8, cl. 8. The Intellectual Property Clause grants Congress the authority "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." *Id.*; see also *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.' Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.").

60. Gordon, *An Inquiry into the Merits of Copyright*, *supra* note 58, at 1378–84.

61. Copyright Act § 102(a).

62. *Baker v. Selden*, 101 U.S. 99, 102–07 (1879). On the welfare losses associated with protecting ideas in the copyright context, see William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 347–50 (1989).

63. *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 742 (9th Cir. 1971); *Morrissey v. Procter & Gamble Co.*, 379 F.2d 675, 679 (1st Cir. 1967).

64. *Mazer*, 347 U.S. at 217–18 ("[T]wo men, each a perfectionist, independently mak[e] maps of the same territory. Though the maps are identical each may obtain the exclusive right to make copies of his own particular map, and yet neither will infringe the other's copyright. Likewise a copyrighted directory is not infringed by a similar directory which is the product of independent work.").

that the copyright owner is entitled to assert.⁶⁵ Trespass upon property does not simply transpire as a result of third parties having somehow dealt with a copyrighted work. It does so only when that work has actually been used in a particular manner. Impermissible uses include the unauthorized reproduction, distribution, public performance, and display of a work of authorship as well as its use for the preparation of derivative works.⁶⁶ The certainty as to the legal status of an exploitable resource that can be transferred in exchange for an economic benefit would facilitate the emergence of those markets where the rights holder could seek rents.⁶⁷ It is envisaged that the effectuation of such transactions will eventually put works of authorship at their most efficient use. A property rule is necessary for enabling works of authorship to be transferred in voluntary transactions.

Property rules aim at the reallocation of resources in a manner that maximizes economic value. For a resource to end up in the hands of those who value it the most through private bargaining, it must be subjected to the individual control of the owner, who determines the conditions under which third parties may deal with the intangible asset.⁶⁸ Strict liability is a necessary component of this structure. A neg-

65. Gordon, *An Inquiry into the Merits of Copyright*, *supra* note 58, at 1382–83.

66. Copyright Act § 106. The impermissible uses are formulated in an abstract manner, reflecting a reliance on proxies to measure valuable attributes of the subject matter and a decision to internalize benefits through a property right. With such a large class of uses bundled together to the benefit of authors, it is sensible to conclude that the law basically regulates the access to a resource. On those issues, see Henry E. Smith, *Exclusion Versus Governance: Two Strategies for Delineating Property Rights*, 31 J. LEGAL STUD. 453, 467–71 (2002).

67. On this aspect of the exclusion strategy see generally Thomas W. Merrill & Henry E. Smith, *The Property/Contract Interface*, 101 COLUM. L. REV. 773, 793–96 (2001) (arguing that highly standardized in rem rights, which rely on crude proxies, facilitate transactions by reducing any potential buyer's cost of obtaining information about the scope of rights he or she may acquire).

68. ROBERT P. MERGES, *JUSTIFYING INTELLECTUAL PROPERTY* 5 (2011) (arguing that individual control is an appropriate means for administering intangible assets and makes sense from a policy perspective as much as property rights for tangible property do). While the intangible nature of the asset could not be taken to suggest that IP rights should not be designed as property rights, it may indeed indicate that, in the case of copyright, the scope of permissible third party uses would be broader than the one available to those wishing to deal with tangible products owned by another. This is primarily because works of authorship are non-rivalrous in consumption. As such, they are capable of being used extensively without losing their value. The constitutionally mandated policy of promoting the progress of science and the useful arts through the grant of exclusive rights to authors in their writings presupposes that a significant number of dealings with copyrighted works, such as criticism and commentary, should be permitted during the copyright term. On this issue, see Wendy J. Gordon, *Trespass-Copyright Parallels and the Harm-Benefit Distinction*, 122 HARV. L. REV. F. 62, 67 (2009) [hereinafter Gordon, *Trespass-Copyright Parallels and the Harm-Benefit Distinction*] (making the point that “unlike land, a decentralized use of copyrighted work is unlikely to result in a tragedy of the commons and more likely to suffer from a

ligence rule would allow third parties to circumvent the market, reducing the efficiency of the owner's coordination.

Finally, an abstract norm such as the one holding defendants liable for trespass upon copyright property is more likely to create correct incentives because the behavioral guideline provided by such a norm is clearer and addresses the widest possible circle of individuals.⁶⁹ Generalized prescriptions are apt for creating rights in rem.⁷⁰ Moreover, rules are capable of promoting the type of individualism fostered by copyright laws because they allow the formation of strategies that promote self-interest and prevent the adjudicator from undermining the effect of actions undertaken at a later stage.⁷¹

Importantly, the exclusive legal position associated with copyright confers upon the rights holder a profit-maximizing opportunity. Copyright demarcates intangible property so that the rights holder could prevent third parties from trespassing therein, regardless of whether he or she is able to establish economic harm such as loss of sales or potential profit as a result of the infringing act. Apparently, strict liability ensures that the copyright owner is capable of internalizing the full market value ascribed to that functionally delineated piece of

tragedy of the anticommons" and therefore explaining that copyright law has a broader "necessity" privilege than the tort of trespass to land and involves more of those "harmless but beneficial uses by third parties" than real property law). Gordon then wonders whether some of our behavioral traits might affect the capacity of the market mechanism to "correct for" the misallocation of rights in works of authorship. *Id.* at 73. Assuming that people are less motivated to capture benefits than to avoid losing possession, copyright owners might in fact be reluctant to license socially desirable uses of their works. *Id.* This "endowment effect" might be stronger when it comes to goods that we have created ourselves, as she suggests. *Id.* at 70. But, on the other hand, irrational loss aversion may be counteracted by overconfidence about the financial returns of investments, which characterizes us as well. *Id.* at 72. In turn, this overconfidence may result in excessive royalties. *Id.* In other words, Gordon suggests that it may well be the case that copyright owners are not as good as owners of tangible products in maximizing the social value of their property. *Id.*

69. On this particular point, see Louis T. Vischer, *Justifications and Excuses in the Economic Analysis of Tort Law*, in *ECONOMIC TORTS* 22 (Sabiha P. Khanum ed., 2009). On the correlation between norm specificity and deterrence, see Isaac Ehrlich & Richard A. Posner, *An Economic Analysis of Legal Rulemaking*, 3 *J. LEGAL STUD.* 257, 275–77 (1974).
70. Anthony I. Ogus, *Quantitative Rules and Judicial Decision Making*, in *THE ECONOMIC APPROACH TO LAW* 210–11 (Paul Burrows & Cento Veljanovski eds., 1981) (noting that disputes between individuals arising from property are more likely to be resolved under rules that feature a high degree of generality).
71. Duncan Kennedy, *Form and Substance in Private Law Adjudication*, 89 *HARV. L. REV.* 1685, 1740–51 (1976) (noting that this non-interventionist approach marks the correspondence between rules and individualism). Depending on context, rules may suppress individualism since they disfavor arguments pertaining to the situation of an individual. See FREDERICK SCHAUER, *PLAYING BY THE RULES: A PHILOSOPHICAL EXAMINATION OF RULE-BASED DECISION-MAKING IN LAW AND IN LIFE* 162–63 (1991).

property in accordance with the aim of spurring the production of expressive works and the ultimate utilitarian purposes of copyright law.

To facilitate the unfettered exploitation of the internalized benefits, copyright law dispenses with the necessity of proving actual copying.⁷² Were the rights holder required to meet such a complex and often unattainable evidentiary burden, the low probability of succeeding in litigation would undermine copyright's incentive function, if not eradicate it altogether. As a rule, defendants would be exposed to liability for infringing acts if the copyright owner is able to show that those third parties have had an opportunity to copy the protected work and there is a substantial degree of resemblance between the two works involved.⁷³ Moreover, in some cases of striking similarity, the plaintiff would even be discharged from the burden of establishing that the defendant had indeed accessed the copyrighted work.⁷⁴ The requirement of substantial similarity is there to clarify whether there has been a trespass because it delineates the contours of copyright property.⁷⁵ It seeks to ascertain whether the defendant has appropriated copyrightable expression.

Further insight could be gained if one views copyright legislation as the result of a bargain between authors and the state, necessitated

72. *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 54 (2d Cir. 1936) ("With so many sources before them they might quite honestly forget what they took; nobody knows the origin of his inventions; memory and fancy merge even in adults. Yet unconscious plagiarism is actionable quite as much as deliberate."). See generally GOLDSTEIN, *supra* note 7, § 9.2.1; MELVILLE B. NIMMER & DAVID NIMMER, 4 NIMMER ON COPYRIGHT § 13.01[B]; PATRY, *supra* note 7, § 9:21.

73. *Bright Tunes Music Corp. v. Harrisongs Music, Ltd.*, 420 F. Supp. 177, 180–81 (S.D.N.Y. 1976).

74. *Arnstein v. Porter*, 154 F.2d 464, 468–69 (2d Cir. 1946).

75. Cf. Gordon, *Copyright as Tort Law's Mirror Image*, *supra* note 2, at 457–65 (considering the requirement of substantial similarity as a principal difference between the tort of trespass to land and the tort of copyright infringement; explaining that copyright infringement does not mirror trespass to land because it imposes a requirement additional to the one of entry; expressing the view that this requirement manifests the idea of copyright infringement being structured as a tort based on negligence because it is the substantial similarity between the two works that makes harm likely to occur; and suggesting that improper appropriation reflects a fault standard, which differs in nature from strict liability). Without denying the correlation between substantial similarity and harm, or even fault, it seems to me that the inclusion of that requirement into the tort of copyright infringement is rather primarily associated with the particularities of demarcating intangible as opposed to physical property. Copyright law requires the plaintiff to show proof of access and similarity to avoid frivolous litigation given that he or she is relieved from the burden of proving actual copying. Apart from that, access and similarity are issues that the plaintiff can prove at a lower cost. On these issues, see Thomas R. Lee, *Pleading and Proof: The Economics of Legal Burdens*, 1997 BYU L. REV. 1, 19–20 (1997).

by the nature of intangible property as a public good.⁷⁶ In order to encourage reliance investments in the production and dissemination of works of authorship, the state offers a consideration in the form of a guaranteed profit-maximizing opportunity.⁷⁷

Strict liability is, therefore, an indispensable feature of copyright protection as it secures the internalization of a set of benefits that are predetermined by reference to the potential market value of a given subject matter and whose prospect operates as an incentive for authorial activity.

B. The Case for Negligence in Copyright Law: Fair Use as Regulation of Activity Levels

While strict liability is indispensable for the internalization of benefits that are adequate to induce the production of expressive works, it also tends at the same time to curb the levels of socially desirable activity, as noted above. This begs the question of what could be considered as an activity level in the copyright context. Any socially desirable activity that is likely to be suppressed by copyright protection based on strict liability should count as an activity whose level has to be regulated by copyright law. Traditional copyright policy considerations, such as the concern to avoid the inhibition to incremental authorship or the restriction to the freedom of speech, belong with the circle of activities that have to be regulated through recourse to some negligence standard. In section 107 of the Copyright Act, Congress has explicitly provided for activities that should, at least to some extent, remain free from copyright constraints.⁷⁸ Accordingly, activities such as criticism, comment, news reporting, teaching (including multiple

76. For an invocation and application of this theory, see *Eldred v. Ashcroft*, 537 U.S. 186 (2003).

77. See Robert P. Merges, *A Few Kind Words for Absolute Infringement Liability in Patent Law*, 31 *BERKELEY TECH. L.J.* 1, 44 (2016) (considering strict liability in copyright with reference to interdisciplinary literature in support of the proposition that inadvertent plagiarism does occur, while highlighting the merits of patent law's absolute liability rule and explaining its reliance function). As a principle for demarcating the boundaries of copyright property, the concept of inadvertent plagiarism has, of course, its weaknesses. In an environment where communications media are omnipresent, it may become too easy for the copyright owner to interfere with the creative efforts of others. See Wendy J. Gordon, *Toward a Jurisprudence of Benefits: The Norms of Copyright and the Problem of Private Censorship*, 57 *U. CHI. L. REV.* 1009, 1031 (1990). Despite those weaknesses, it does not seem as if the contemporary principles of copyright infringement could be abandoned, much like patent law's rule of absolute liability cannot be discarded. For copyright to be able to develop its function of internalizing benefits to secure authorial incentives, such evidentiary easements are necessary. On the capacity of rules, as opposed to standards, to encourage reliance, see SCHAUER, *supra* note 71, at 137–45.

78. Copyright Act § 107, 17 U.S.C. § 107 (2012).

copies for classroom use), scholarship, or research must be regulated separately so as to ensure the freedom of third parties to engage in them at an optimal level. All six favored uses that are explicitly mentioned in the statute share the common characteristic of referring to potentially permissible dealings with copyrights which furnish social benefits that outweigh the social losses resulting from the inability of the copyright owners to enforce their rights.⁷⁹

However, it is impossible for the legislator either to predict all possible types of activity that need separate regulation or to set the appropriate level of care with regard to the copyright owner's interests that those engaging in such activities must exercise. The legislator who passes a copyright statute cannot possibly possess the information necessary to construct universal negligence standards. As a result thereof, that duty is left to the courts, which will eventually collect that information, mainly from the parties to the dispute.

But section 107 of the Copyright Act clearly prescribes the legal framework that courts have to abide by.⁸⁰ Firstly, the relevant activity is defined.⁸¹ Then, the courts apply the fair use doctrine to determine the optimal level of that activity and introduce the level of care that third parties must exercise toward the copyright owner's legitimate interests.⁸² Thus, in the case of copyright, activity levels are defined exogenously⁸³ and subjected to negligence standards in order to maximize dealings with earlier works that serve copyright's policies.

79. GOLDSTEIN, *supra* note 7, § 12.2.1 at 12:13–12:14. *Cf.* MARSHALL A. LEAFFER, UNDERSTANDING COPYRIGHT LAW 498 (6th ed. 2014) (arguing that the common theme to the foreseen uses mentioned in the preamble is that they are all productive uses, each one contributing its own “valuable creative element”).

80. SHELDON W. HALPERN, COPYRIGHT LAW—PROTECTION OF ORIGINAL EXPRESSION 615 (3d ed. 2016) (explaining that the statute suggests a bifurcated analysis, which first examines whether a given use belongs to a broader category of uses that are generally deemed fair in light of their purpose and then proceeds to assess whether that specific use should be insulated from liability after weighing the four factors).

81. An exclusion strategy is often coupled with governance rules that regulate use of the resource by third parties. Property rights usually combine exclusion with some element of governance strategy. Governance rules focus on specific uses/activities. *See* Smith, *supra* note 66, at 455 (elaborating upon the work of Harold Demsetz, *Toward a Theory of Property Rights*, 57 AM. ECON. REV. 347 (1967)).

82. In order to define the type of activity implicated in a given dispute, the courts must engage in an analysis of the four factors and in particular, the first factor. *See* Pac. & S. Co., Inc. v. Duncan, 744 F.2d 1490, 1495 (11th Cir. 1984) (rejecting the fair use assessment of the district court, which considered that the defendants could not rely on the defense without analyzing the four factors because their news clipping business involved a type of use of earlier copyrighted works that was not comparable to those mentioned in the preamble of section 107 of the Copyright Act).

83. On this approach and its alternatives, see generally Nuno Garoupa & Thomas S. Ulen, *The Economics of Activity Levels in Tort Liability and Regulation*, in RESEARCH HANDBOOK ON ECONOMIC MODELS OF LAW 33, 41–42 (Thomas J. Miceli &

The first factor, focusing on the purpose and the character of the use, facilitates the emergence of negligence standards for specific activities in copyright law in that it prompts the courts to define the type of activity that may qualify for a fair use exemption in light of the social benefits associated with it. Transformative uses, such as parodies, that appropriate material from a copyrighted work but add new expression and new meaning enrich our understanding of the currently available literary and artistic goods. Under a strict liability regime, the levels of parodic activity would obviously be suboptimal. Once the type of the relevant activity has been ascertained, the optimal levels of that activity are induced by setting standards as to the qualitative or quantitative nature of the material defendants are permitted to copy (second and third factors). The most important implication of the negligence standard is that the copyright owner might be deprived of some of the benefits that would have been internalized under a regime solely based on strict liability (fourth factor).

This observation explains, in my view, two phenomena already highlighted by copyright scholarship. First, courts tend at times to “stampede” the factor analysis and would rather hold the defense of fair use applicable whenever they consider that the allegedly infringing act should be exempted from liability.⁸⁴ Rather than arguing that the factors are quasi manipulated so as to correspond with the outcome of the legal evaluation, one could say that the analysis of factors is simply indicative of the activity levels and the standard of care that the court deems appropriate in a given case. Second, the fair use doctrine is only seemingly indeterminate and despite its flexibility in requiring a case-by-case analysis, there is actually a considerable degree

Matthew J. Baker eds., 2014). It is not always easy to distinguish between what amounts to a measure of exercising due care and what constitutes an activity level since the latter may also be perceived as a means of precaution. The initial insight was that activity levels simply refer to the frequency with which an activity takes place. Levels of activity are more difficult to measure. Furthermore, the standard applicable to the most straightforward dimensions of care may be suboptimal for activity levels. For those reasons, activity levels would often be regulated separately (exogenously). After reviewing the relevant literature, Garoupa and Ulen observe that this distinction is to a large extent artificial. *Id.* Distinguishing between care and activity levels becomes a matter of adopting optimal standards for a set of disputes featuring common elements.

84. David Nimmer, “*Fairest of Them All*” and *Other Fairy Tales of Fair Use*, 66 LAW & CONTEMP. PROBS. 263, 278–84 (2003). Cf. Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978–2005*, 156 U. PA. L. REV. 549 (2008) (bringing forward empirical evidence suggesting that “stampeding” is not a generalized phenomenon); *Cambridge Univ. Press v. Patton*, 769 F.3d 1232, 1260 (11th Cir. 2014) (“Accordingly, we find that the District Court erred in giving each of the four factors equal weight, and in treating the four factors as a simple mathematical formula. As we will explain, because of the circumstances of this case, some of the factors weigh more heavily on the fair use determination than others.”).

of certainty as to the uses that qualify as fair within the meaning of section 107 of the Copyright Act.⁸⁵ Copyright scholars have traced the patterns governing the judicial administration of the fair use doctrine in the consistent treatment of identified types of secondary uses and provided a taxonomy of putative fair uses.⁸⁶ Some “policy-relevant” clusters have been identified, which broadly circumscribe the types of dealings with copyrighted works that are privileged.⁸⁷ It is submitted that this taxonomy emerges from the courts’ more or less unconscious predisposition to apply the fair use defense by inquiring upon the desirability of a given secondary use and examining whether the defendant has exercised due care toward the legitimate interests of the copyright owner after taking into account the optimal levels of activity.

IV. LEGAL NATURE OF FAIR USE AS A NEGLIGENCE STANDARD

A. Why Combine Strict Liability with Negligence?

Apparently, the obligation of third parties to refrain from infringing earlier copyrights and their privilege to engage in uses that promote the broader utilitarian purposes of copyright law cannot be subjected to the same standard of care. Strict liability would ade-

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85. Pamela Samuelson, *Unbundling Fair Uses*, 77 *FORDHAM L. REV.* 2537, 2539–44 (2009); Jonathan Griffiths, *Unsticking the Centre-Piece – the Liberation of European Copyright Law?*, 1 *J. INTELL. PROP. INFO. TECH. & ELEC. COMM. L.* 87, 90–91 (2010) (criticizing the European reluctance to allow for more flexibility by adopting the fair use model on the grounds of a perceived conviction that the doctrine is unpredictable).
86. Paul Goldstein, *Fair Use in Context*, 31 *COLUM. J.L. & ARTS* 433, 442–43 (2008) (noting that while the importance of taxonomizing fair uses should be appreciated, regard must also be had to the dynamic nature of fair use analysis, which may lead to known secondary uses being assessed differently after considering technological or other market changes). Other attempts to unveil the regularities marionetting the application of the fair use defense include: Michael J. Madison, *A Pattern-Oriented Approach to Fair Use*, 45 *WM. & MARY L. REV.* 1525, 1623–87 (2004) (favoring an interdisciplinary approach to fair use whereby the legality of defendant’s actions would be assessed for conforming with recognized social or cultural patterns); Matthew Sag, *Predicting Fair Use*, 73 *OHIO ST. L.J.* 47 (2012) (seeking to identify fact-patterns affecting fair use outcomes).
87. Samuelson, *supra* note 85. This rulification of fair use has an important advantage. See Niva Elkin-Koren & Orit Fischman-Afori, *Rulifying Fair Use*, 59 *ARIZ. L. REV.* 161 (2017). To some desirable extent it turns fair use to a “class defense” as opposed to an “individualized defense” in the sense that these terms are used by Parchomovsky and Stein, who note that parodists, for instance, have created a harbor for everyone belonging to the same class with them and did not simply escape liability for their own benefit. Gideon Parchomovsky & Alex Stein, *Intellectual Property Defenses*, 113 *COLUM. L. REV.* 1483, 1531 (2013). Parchomovsky and Stein explore ways to empower defendants relying upon “class defenses.” *Id.* at 1483–1542.

quately secure creative incentives for authors, but it would suppress socially desirable activities. Negligence would maximize otherwise desirable activities, but it would reduce authorial incentives. Hence, copyright law has adopted a mixed system of liability. The tort of copyright infringement is designed to mirror trespass involving an interference with an individual's subjective right, which can be enforced against everyone. Such an abstract and general prohibition coordinates societal behavior to promote a climate in which copyright is respected so that authorial incentives are effectively secured.⁸⁸ At the same time, it is necessary to provide exceptions on a case-by-case basis since the utilitarian purposes of copyright suggest that a certain amount of dealings with earlier works should be permissible.⁸⁹

The structure of the assessment reflects a type of decision making that has been referred to as "rule-sensitive particularism."⁹⁰ Decision-makers may deviate from the rule to accommodate the particularities of a specific case by considering account all relevant factors but are required at the same time to take into account the value of having a rule. Negligence standards, on the other hand, are suitable for optimizing the levels of socially desirable activities. Hence, the tort of copyright infringement constitutes a mixed system for distributing

88. The effectiveness of any IP system depends not solely on the application of its legal rules but also on the observance of corresponding social norms, which would ideally deter the infringement of IP rights even in those cases where the law is inefficient because, for instance, rights are difficult to enforce. *See, e.g.*, Lior Strahilevitz, *Charismatic Code, Social Norms, and the Emergence of Cooperation on the File-Sharing Networks*, 89 VA. L. REV. 505 (2003) (discussing the problem in the context of file-sharing). For norms to be internalized by the individuals, they must somehow reflect a more or less unanimous consensus that the infringing conduct is undesirable. *See generally* Robert D. Cooter, *Structural Adjudication and the New Law Merchant: A Model of Decentralized Law*, 14 INT'L. REV. L. & ECON. 215, 224 (1994) (discussing the evolution and efficiency of social norms and providing an analytical framework for assessing whether a social norm should be elevated to the level of law). This is more likely to happen when norms are characterized by a high degree of abstractness and generality because it is that type of norm that effectively commands immediate unanimous agreement. *See* Richard H. McAdams, *The Origin, Development, and Regulation of Norms*, 96 MICH. L. REV. 338, 383 (1997). In that regard, one could see at least some sense in drawing the parallels between the infringement of intellectual property rights and the concept of theft. This approach allows the emergence of esteem-based norms, which would eventually be internalized if individuals prefer to avoid shaming and disapproval than getting the benefit associated with non-compliance. A sense of guilt or shame is capable of leading to norm internalization. *See* Richard A. Posner, *Social Norms and the Law: An Economic Approach*, 87 AM. ECON. REV. 365, 366 (1997); *see also* SCHAUER, *supra* note 71, at 42–43 (discussing the entrenchment of generalizations as a psychological phenomenon).

89. Hence, copyright law combines an exclusion strategy with governance principles. On this point, see Henry E. Smith, *Intellectual Property as Property: Delineating Entitlements in Information*, 117 YALE L.J. POCKET PART 87 (2007) (discussing fair use).

90. Schauer, *supra* note 12.

liability that resorts to both strict liability and negligence to optimize duties of care and activity levels. Fair use adjudications eventually lead to the creation of negligence standards regulating activity levels. The statutory language, which defines the rights of the copyright owner by designating the infringing acts in section 106 and then separately proceeding to prescribe fair use as a non-infringing dealing with an earlier work in section 107, comports with the view that the Copyright Act has established a mixed system of liability involving two independent standards.

B. Further Reasons Behind the Choice of the Test

Let's now turn to further explore the basis of liability and examine its nature.⁹¹ Seeking to optimize third parties' activity levels, the fair use doctrine relies on a negligence standard. Accordingly, the starting point of liability is based on the premise that the victim (copyright owner) should bear the loss unless the injurer (secondary user) fails the chosen test. Injurers are in a better position to decide what precautionary measures must be taken since they are the ones who have an interest in dealing with an earlier work.

Negligence is the proper standard because strict liability tends to reduce activity levels, which is not desirable in the case of copyright. Fair use principles correspond to a rather flexible standard requiring a case-by-case assessment. Such flexibility is absolutely necessary not only because the aggregate effects of ad hoc negligence standards are more likely to increase social welfare but also because it allows for a timely reconsideration of the equities involved when technological advances give rise to new markets for authorial works and, at the same time, create enhanced opportunities for consumers to access copyrighted material. Reprography, for instance, allowed the copyright owner to seek rents by charging for some of the newly possible secondary uses involving the photocopying of a literary work. Consumers, on the other hand, got the benefit of easier access to those works or became able to better enjoy their own lawfully acquired copies of an original work. When assessing the fairness of a new use, courts bear in mind that copyright enforcement should refrain from suppressing

91. For an analysis of the considerations underlying the choice of tests for tortious liability, see the observations of Guido Calabresi & Alvin K. Klevorick, *Four Tests for Liability in Torts*, 14 J. LEGAL STUD. 585 (1985).

new technologies.⁹² For all those reasons, fair use had to be designed as a flexible standard and not as a rigid rule.⁹³

In principle, fair use operates as an *ex post* negligence standard. Whether the defendant could have predicted what the requisite level of care was at the time the action was taken is irrelevant. Rather, fair use focuses on whether, in light of information available at the time the dispute is adjudicated, the specific secondary use is socially beneficial overall. The assessment aims at determining the result of a cost-benefit analysis that should have taken place before the allegedly infringing act. This has a further important implication. Foreseeability is not a determinative element of the tort but only a relevant factor.⁹⁴ Thus, the fair use calculus mirrors the flexible but structured “balanc-

92. PAUL GOLDSTEIN, *COPYRIGHT’S HIGHWAY – FROM GUTENBERG TO THE CELESTIAL JUKEBOX* 19–71 (2d ed. 2003) (explaining how the encounters between copyright and new technologies raise questions about the qualification of a secondary use as part of the author’s or the user’s rights and the implications that such decisions may have upon technological developments). As Shavell, *supra* note 28, at 23, suggests, the negligence standard should consider the appropriate level of investment incurred by third parties to develop innovative products.

93. On the distinction between rules and standards, see Louis Kaplow, *Rules Versus Standards: An Economic Analysis*, 42 *DUKE L.J.* 557, 585–86 (1992) (suggesting that promulgating standards instead of rules would be more efficient when the information necessary for determining the content of the law is easier to obtain at the time the defendants act or the disputes are being adjudicated).

94. STEPHEN J. SPURR, *ECONOMIC FOUNDATIONS OF LAW* 150–51 (2d ed. 2010) (noting that the element of foreseeability can be included into the calculus of the “Learned Hand Rule”). Scholars who view the tort of copyright infringement as a system of liability mirroring negligence suggest that the introduction of a foreseeability requirement would bring copyright law in alignment with its tort law moorings by confining copyright owners to redress for foreseeable harms arising from interference with core markets or markets that are likely to be developed and whose prospect materially affects an *ex ante* decision to create a work of authorship. See Shyamkrishna Balganesh, *Foreseeability and Copyright Incentives*, 122 *HARV. L. REV.* 1569 (2009) (arguing that a requirement of “foreseeable copying” would keep the scope of copyright protection to the level that is actually necessary for creative works to emerge); see also Christina Bohannon, *Copyright Harm, Foreseeability, and Fair Use*, 85 *WASH. U. L. REV.* 969 (2007) (arguing in favor of a harm-based approach under which harm should be inferred from foreseeable uses while proof of harm should be required for less foreseeable ones). In any event, as a factor of a broader balancing test, the fact that a secondary use was not foreseeable may indicate that the defendant has been able to come up with a very innovative contribution such as making new forms of research possible. See, e.g., *Authors Guild v. Google, Inc.*, 804 F.3d 202 (2d Cir. 2015). For those wishing to confine the copyright owner to the rents available in foreseeable markets, a way of getting around such doctrinal obstacles is to structure the tort of copyright infringement as a tort of interference with a market prospect protecting an author’s “objectively reasonable expectations” without satisfying any “purely subjective desire for a windfall.” See Shyamkrishna Balganesh, *Copyright as Market Prospect*, 166 *U. PA. L. REV.* 443, 487 (2018).

ing-approach” of general tort law⁹⁵ in that it implements the incentives-access paradigm.

At first glance, it seems that *ex post* negligence standards are ill-equipped to facilitate future decisions. If the outcome depends on what will later be deemed reasonable with the advantage of hindsight, third parties would then have to act on the basis of uninformed decisions. On the other hand, an *ex post* standard would create incentives for the secondary users to gather information about the requisite level of care. And in any event, due to the unceasing and ubiquitous nature of everyday dealings with earlier copyrights, courts have numerous opportunities to apply the fair use doctrine and gather a wealth of information about precautionary measures that need to be taken once somebody decides to use copyrighted material for a legitimate purpose. It is also the nature of copyright disputes such that in the overwhelming majority of cases it is relatively easy for the court to assess the optimal levels of care with some help from earlier case law, custom,⁹⁶ and evidence adduced by the parties to the dispute.⁹⁷

Fair use is an affirmative defense placing the burden of proof on the defendant.⁹⁸ In that regard, a distinction should be drawn between the burden of persuasion and the burden of production.⁹⁹ First of all, it should be noted that it makes sense for the defendant to bear the burden of persuasion. If not, there is the danger of the plaintiff not being able to capture the full value of his or her work if forced to face weak or even frivolous defenses that would coerce him or her to settle disputes.¹⁰⁰ Furthermore, it would undermine the effectiveness of the

95. See generally 1 DAN B. DOBBS, PAUL T. HAYDEN & ELLEN M. BUBLICK, *THE LAW OF TORTS* § 161 (2d ed. 2011).

96. Custom cannot be determinative because in that case, defendants would have had an incentive to stick with customary precautions and avoid taking useful risks that might be necessary for innovation to emerge. On this point, see Gideon Parchomovsky & Alex Stein, *Torts and Innovation*, 107 MICH. L. REV. 285 (2008).

97. There are, of course, cases such as of file sharing, where obtaining the information necessary for an assessment of market harm as a result of the secondary use would be anything but easy. See generally Stan J. Liebowitz, *Back to the Future: Can Copyright Owners Appropriate Revenues in the Face of New Copying Technologies?*, in *THE ECONOMICS OF COPYRIGHT: DEVELOPMENTS IN RESEARCH AND ANALYSIS* 1 (2003) [hereinafter Liebowitz, *Back to the Future*]. Nevertheless, the courts have managed to come up with sensible decisions in this field. See *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072 (9th Cir. 1999).

98. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 561 (1985); see generally WILLIAM F. PATRY, *PATRY ON FAIR USE* § 2:5.

99. See generally LINDA J. SILBERMAN, ALLEN R. STEIN & TOBIAS BARRINGTON WOLFF, *CIVIL PROCEDURE – THEORY AND PRACTICE* 9–10 (3d ed. 2009); CHRISTOPHER B. MUELLER & LAIRD C. KIRKPATRICK, *EVIDENCE* § 3.1, at 126–27 (1995).

100. On this function of the burden of proof, see Parchomovsky & Stein, *supra* note 96, at 1531.

plaintiff's rights if he or she is made to establish the absence of any illegality, including the unfairness of the secondary use.¹⁰¹ Since there are many types of dealings—more than encountered in real property law¹⁰²—with an earlier work that are in principle socially desirable, copyright law tends to exempt from liability a greater amount of secondary uses than property law does. Many of those activities, if carried out excessively, would annihilate copyright policy where the secondary use disproportionately interferes with the economic interests of the copyright owner. Placing the burden of persuasion on the plaintiff would reduce the potency of the property right as it would render it difficult to defend in practice against a multitude of trespassers.¹⁰³

As far as the burden of production is concerned, it is an issue that primarily relates to the need to economize on costs of evidence production. Affirmative defenses are normally relied upon to place the burden of production on the defendant when he or she can adduce evidence at a lower cost.¹⁰⁴ An advantage of the affirmative defense doctrine is that it draws a distinction between issues that arise less frequently in litigation (fair use) and issues that always arise (*prima facie* case). Shifting the burden of proof to the defendant (requiring him or her to produce evidence indicating that the secondary use is fair) saves the cost associated with raising the less frequent issues in all cases by the plaintiff.¹⁰⁵ Furthermore, the fact that defendants must plead affirmative defenses offers the benefit of narrowing down the scope of the issues that will eventually be adjudicated.¹⁰⁶ By raising one specific issue related to fair use or another defense, the defendant provides a signal to the plaintiff and the court about the specific issue that is going to be disputed. This narrows the scope of litigation and avoids the unnecessary procedural costs of assessing broader claims.

While the burden of proof, which includes both the burden of production and the burden of persuasion, rests with the defendant, courts may modify this principle with respect to the burden of production in

101. *Cf.* POSNER, *supra* note 14, at 845 (explaining the rationale behind shifting the burden of proof to the defendant through affirmative defenses).

102. Gordon, *Trespass-Copyright Parallels and the Harm-Benefit Distinction*, *supra* note 68, at 67.

103. *Cf.* Thomas Cotter, *The Precompetitive Interest in Intellectual Property Law*, 48 WM. & MARY L. REV. 483, 551 (2006) (drawing a parallel between the antitrust plaintiff and the IP defendant who relies on the affirmative defense of fair use and arguing that placing the burden of persuasion on the IP defendant is desirable when false positives must be avoided and a reduction of the cost for protecting the property right is desirable).

104. *See generally* Bruce L. Hay & Kathryn E. Spier, *Burdens of Proof in Civil Litigation: An Economic Perspective*, 26 J. LEGAL STUD. 413, 427–28 (1997).

105. Lee, *supra* note 75, at 7.

106. *Id.* at 8.

order to efficiently allocate the cost of producing evidence. Plaintiffs could be called upon to establish, for instance, that a well-established system for the licensing of excerpts from copyrighted works is in place, even though it is the defendant who has to bear the ultimate burden of persuasion.¹⁰⁷ Those are instances where the plaintiff can be more efficient in providing the court with the necessary information.

The above considerations indicate that the nature of the fair use doctrine as an affirmative defense is dictated by the very purpose of copyright protection,¹⁰⁸ which is to safeguard the author's property rights and allow access to authorial works with respect to some uses when the social benefit of their externalization is high enough to overcompensate the loss in authorial incentives that results from an inability to enforce copyright.¹⁰⁹

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107. *Cambridge Univ. Press v. Patton*, 769 F.3d 1232, 1279–80 (11th Cir. 2014). It also serves as a means to economize procedural costs. The judge has authority to decide a case without jury consideration when the production burden is not met. See CHARLES TILFORD MCCORMICK, MCCORMICK ON EVIDENCE § 336, at 569 (John William Strong ed., 4th ed. 1992); 9 JOHN HENRY WIGMORE, EVIDENCE IN TRIALS AT COMMON LAW § 2487, at 299 (3d ed. 1983). It is beyond the scope of this Article to further examine the possible economic or procedural rationales behind the initial allocation of the shifting burden of production in the context of the fair use analysis. Factors such as the incentives of the copyright owners and users to gather and reveal information about the risk should be relevant. Another issue that lies beyond the scope of this Article is the possible effect of the allocation of a specific persuasion burden on the activity levels, which may be an issue that could also be examined from an empirical perspective. For a general account of the burden of proof as a policy instrument that may be relied upon to regulate activity levels, see Louis Kaplow, *On the Optimal Burden of Proof*, 119 J. POL. ECON. 1104 (2011).
108. Thus, substantive copyright law entails assumptions about the procedural rules that are appropriate for implementing its policies. See Thomas O. Main, *The Procedural Foundation of Substantive Law*, 87 WASH. U. L. REV. 801 (2010) (arguing that substantive law rules are at least to some extent inherently procedural in the sense that their content often suggests optimal procedural rules for their enforcement).
109. Critics of the affirmative defense doctrine and its application in the field of copyright law argue that placing the burden of proof on the defendant is problematic for uses that involve the freedom of speech as it requires “the speaker to prove an entitlement to speak.” Lydia Pallas Loren, *Fair Use: An Affirmative Defense?*, 90 WASH. L. REV. 685, 709 (2015) (examining arguments related to the wording of the statute and the legislative history to support the view that fair use should not be treated as an affirmative defense). Quite a few scholars share this view. See Ned Snow, *Proving Fair Use: Burden of Proof as Burden of Speech*, 31 CARDOZO L. REV. 1781 (2010). It seems, however, that the fair use doctrine is capable of accommodating those concerns through its rulification. Fair use adjudication has increased the predictability of the fair use doctrine providing defendants with robust precedents that could effectively be invoked to protect their freedom of speech in front of sensible judges. Concluding on an issue that cannot be discussed any further on this day, an additional argument that could be brought forward in favor of the proposition that fair use is an affirmative defense can be derived from the language of the statute, which uses a negative expression to

In the context of fair use analysis, it is therefore possible to enjoy the virtues of negligence and avoid a great deal of its drawbacks. Another advantage of negligence that copyright law embraces is the ability to optimize levels of activity by personalizing the standard of care.¹¹⁰ Everyone can thereby do their possible best, so to say, to engage in activities that promote the goals of copyright.¹¹¹ An appropriation artist, for instance, may enjoy broad leeway in dealing with an earlier work¹¹² whereas someone who photocopies journal articles for profit would be subjected to more restrictive duties of care.¹¹³ Eventually, fair use seeks to efficiently personalize the levels of care by creating standards that are applicable either to the particular defendant or to specific groups of individuals such as news reporters.

Thus, in practice, the fair use doctrine would often operate as an *ex ante* negligence standard.¹¹⁴ Notwithstanding the constructive criti-

clarify that fair use does not amount to an infringing act. Traditionally, the plaintiff is required to prove affirmative claims on the grounds of negative averments being more difficult to establish. This suggestion does not hold true in every case and it could be criticized from different perspectives. However, the economic justification provided above, namely that it would be inefficient to require plaintiffs to show the absence of any limitation to their claim, indicates that there is some reason to it. See Lee, *supra* note 75, at 7–10.

110. Omri Ben-Shahar & Ariel Porat, *Personalizing Negligence Law*, 91 N.Y.U. L. REV. 628, 656–59 (2016). Ostensibly, strict liability seems to be superior to negligence when the welfare-maximizing solution would require different groups of potential tortfeasors to exercise different levels of care depending on their distinct cost functions. It has been suggested, though, that the same outcome could be achieved through a negligence rule requiring the exercise of maximum care by those tortfeasors that face lower costs of care with liability then increasing proportionally to the departure of potential tortfeasors from that standard. See Thomas J. Miceli, *On Negligence Rules and Self-Selection*, 2 REV. L. & ECON. 349 (2006). Thus, neither strict liability nor negligence could be in abstract terms considered preferable in view of their decentralization effect. See generally Schäfer & Müller-Langer, *supra* note 27, at 24–27. As already suggested, efficient self-selection is achieved in the field of copyright infringement through the imposition of specific standards of care regulating activity levels that result from the fair use analysis.
111. On the positive externalities rationale for fair use, see Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1280–83 (2008) (appearing critical of the actual efficacy of the doctrine); Brett M. Frischman & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257, 302 (2007) (analyzing the “spillover benefits” of fair uses).
112. *Blanch v. Koons*, 467 F.3d 244 (2d Cir. 2006).
113. *Princeton Univ. Press v. Mich. Document Servs., Inc.*, 99 F.3d 1381 (6th Cir. 1996).
114. This is also because the application of negligence standards tends to produce a rich amount of publicly available information about the risk as third parties obtain detailed data about how courts have calculated the optimal degree of care in various cases. On this point, see Schäfer & Müller-Langer, *supra* note 27, at 27–29.

cism on the doctrine being vague and unpredictable,¹¹⁵ it has been possible to derive from the mass of fair use case law a substantial body of rules that are sufficiently precise and inclusive.¹¹⁶ Despite its amorphous nature, the fair use doctrine is highly predictable. Any remaining degree of uncertainty is offset by the social value obtained through the operation of a copyright system that uses strict liability to incentivize the production of authorial works while seeking to optimize activity levels through a negligence standard. Potential losses in legal certainty form part of the fair use calculus already.¹¹⁷ Precedent has therefore transformed a pure standard into a hybrid that is still dominated by “standard-like” elements while also accommodating significant “rule-like” aspects.¹¹⁸

C. Copyright’s Rule of Reason

Every area of law has its own rule of reason. In the case of copyright,¹¹⁹ the core rule is intended to maximize the rent-seeking opportunities of rights holders while allowing enough breathing space for dealings with earlier works that are capable of promoting knowledge

115. LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* 187 (2004); Jessica Litman, *Revising Copyright Law for the Information Age*, 75 OR. L. REV. 19, 45–46 (1996). Various suggestions have been made to increase the predictability of the fair use assessment. See Michael W. Carroll, *Fixing Fair Use*, 85 N.C. L. REV. 1087, 1147 (2007) (proposing the creation of a “Fair Use Board” in the U.S. Copyright Office that would issue clearance letters exempting individual uses from liability); Gideon Parchomovsky & Kevin A. Goldman, *Fair Use Harbors*, 93 VA. L. REV. 1483 (2007) (suggesting the introduction of “safe harbors”). It has also been argued that fair use should be adjudicated by specialist courts. See David Nimmer, *A Modest Proposal to Streamline Fair Use Determinations*, 24 CARDOZO ARTS & ENT. L.J. 11 (2006).

116. Samuelson, *supra* note 85, at 2421–44.

117. GOLDSTEIN, *supra* note 7, § 12.1, at 12.3.

118. Kaplow, *supra* note 93, at 561, 577–79 (explaining how legal commands may mix rules and standards in varying degrees). He also illustrates how precedent may transform a standard into a rule when courts end up applying the precedent instead of administering the standard. *Id.* at 611–16. Such complete transformation is not likely to occur in the case of fair use because the courts are anyway obliged to assess the four factors both individually and in aggregate. It is rather unlikely for the fair use analysis to be substituted by a long list of defenses especially given that the flexibility of the doctrine is necessary for considering technological advances when deciding cases of copyright infringement. See Schauer, *supra* note 12, at 650–51. Conversely, the strict liability rule for copyright infringement is standard-like only to the extent that a finding of infringement also requires a specific form of dealing with the earlier work described in section 106 of the Copyright Act. Copyright Act § 106, 17 U.S.C. § 106 (2012).

119. H.R. Rep. No. 94–1476, at 65 (1976); see also *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 448 (1984) (explaining the core rule of copyright law).

and further scientific development.¹²⁰ Fair use, which is an expression of that principle,¹²¹ aims at reconciling ostensibly competing public interests:¹²² the public interest in the optimal inducement of creative works through economic benefits derived from the market and the public interest in the “broad public availability of literature, music, and the other arts.”¹²³

As a starting point, the copyright owner is entitled to the maximum financial return that his or her work is likely to generate because it is only then that the copyright owner obtains the market value of his or her creative contribution. This also allows for a more detailed determination of the copyright owner’s economic interests, which will eventually be balanced with the interests of the other members of society. On the other hand, as the Second Circuit has colorfully observed, fair use analysis requires courts to “occasionally subordinate the copyright holder’s interest in a maximum financial return to the greater public interest in the development of art, science and industry.”¹²⁴ Importantly, the fair use defense does not reflect a standard whose objective lies in the achievement of static net social welfare. The application of the fair use doctrine should not therefore permit the usurpation of the copyright owner’s markets with the argument that in a given case, copying is socially beneficial without considering the parallel reduction in authorial incentives that the secondary use entails.¹²⁵

However, the market mechanism may not always constitute the proper means for allocating the resource at issue either because the secondary use is not one that should be commodified or because there is some sort of market failure that prevents the relevant market from optimally allocating that resource.¹²⁶ High transaction costs, for in-

120. William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659, 1767 (1988). The consequentialist nature of the fair use analysis is further discussed by Bracha & Gould, *supra* note 5, at 948–50, 988–92.

121. Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1109–10 (1990) (noting that fair use, along with the doctrines refusing to protect ideas as opposed to their expression and excluding pure facts from protection, stem from the same underlying rule).

122. Glynn S. Lunney Jr., *Fair Use and Market Failure: Sony Revisited*, 82 B.U. L. REV. 975, 981, 999 (2002).

123. *Sony Corp. of Am.*, 464 U.S. at 432.

124. *Berlin v. E.C. Publ’ns, Inc.*, 329 F.2d 541, 544 (2d Cir. 1964).

125. *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381, 1391 (6th Cir. 1996) (rejecting a copy shop owner’s argument that the social benefit derived from its copying of course materials for students and professors trumped the publishers’ loss of licensing revenue and noting that “the destruction of this revenue stream can only have a deleterious effect upon the incentive to publish academic writings”).

126. Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600 (1982) [hereinafter Gordon, *Fair Use as Market Failure*] (noting that a number of socia-

stance, may prevent bargains that would have otherwise taken place under normal conditions. On the other hand, the right to write a critical review of someone else's book, for instance, is a use that should not be commodified in principle, given that the copyright owner would tend to refuse a license to avoid undesirable criticism, especially when his or her "priceless" reputation or esteem is at stake, thereby thwarting the transfer of the entitlement to its highest-valued user.¹²⁷

For the mixed system of liability to operate effectively toward the implementation of the constitutional mandate, the two standards

bly desirable secondary uses would be exempted from liability due to the impossibility of reaching bargains). Drawing upon the categorical distinction between excuses and justifications in tort law, Gordon then distinguishes between excused and justified fair uses. Excused uses refer to situations where the market mechanism allows for the welfare-maximizing outcome to emerge but due to the lack of favorable market conditions as it may happen, for instance, in the case of high transaction-costs, bargaining does not eventually take place (market malfunction). Fair use may be denied if this would significantly harm the plaintiff's economic interests. Furthermore, fair use would normally disappear once the relevant market failure is remedied. *See, e.g., Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973), *aff'd*, 420 U.S. 376 (1975). Justified uses refer to situations where markets could not be relied upon to achieve the social optimum (market limitation). Critical and parodic uses of earlier works constitute representative examples of justified uses since the copyright owner might wish to suppress the critical review of his or her works. The same applies to non-monetizable interests and other non-monetary values such as teaching and scholarship. The copyright owner's economic interests are more likely to influence the outcome of the fair use calculus if market malfunction is present. *See Wendy J. Gordon, Excuse and Justification in the Law of Fair Use: Commodification and Market Perspectives*, in NIVA ELKIN-KOREN & NEIL WEINSTOCK NETANEL, *THE COMMODIFICATION OF INFORMATION* 149 (P. Bernt Hugenholtz ed., 2002) [hereinafter Gordon, *Excuse and Justification in the Law of Fair Use*]. Gordon's greatly influential analysis has enriched us with invaluable insights on the nature and the function of the balancing test that the fair use doctrine entails. Her work is often presented as being antithetical to a so-called "balancing theory." Proponents of the latter theory suggest that the market-failure approach may preclude a proper balancing of the equities underlying the fair use calculus and give prominence to the economic interests of the copyright owner. *See Lydia Pallas Loren, Redefining the Market Failure Approach to Fair Use in an Era of Copyright Permission Systems*, 5 J. INTELL. PROP. L. 1, 38-48 (1997) (discussing problems resulting from an approach that would consider "lost" permission fees as harm cognizable under the copyright laws); Lunney, *supra* note 122. However, Gordon's analysis does not actually suggest that an initially fair use of an earlier work is automatically transformed into an infringing use because a market failure attributable to transaction costs has been remedied. *See Wendy J. Gordon, Market Failure and Intellectual Property: A Response to Professor Lunney*, 82 B.U. L. REV. 1031 (2002). Gordon explained the reasons why a non-creative consumptive use of an earlier work may qualify as fair use. *See Wendy J. Gordon, The Fair Use Doctrine: Markets, Market Failure and Rights of Use*, in HANDBOOK ON THE ECONOMICS OF COPYRIGHT - A GUIDE FOR STUDENTS AND TEACHERS 84 (Richard Watt ed., 2014).

127. For a more in-depth analysis of this aspect, see Gordon, *Excuse and Justification in the Law of Fair Use*, *supra* note 126, at 176-87.

should not contradict each other. This presupposes that the application of the fair use defense would not eventually undermine the reliance investments of authors. Just as much as it is important not to suppress socially desirable dealings with earlier works, it is equally important to avoid defeating a sensible rule mandating the grant of property rights in authorial works through an overly generous application of its exception.¹²⁸ Apparently, the fair use analysis implements a structured balancing test.

It is the nature of the incentives-access paradigm, as the underlying rule of reason, that is actually dictating a mixed liability system combining a rule of strict liability and a standard of negligence.¹²⁹

D. A Multifactorial Test: The Role of the Four Factors

The role of the four factors is multifarious. They set out the contours of the injurers' liability in negligence as resulting from the application of copyright's rule of reason. To varying degrees, each one of those factors is programmed to take into account both the social utility generated by the secondary use and the interests of the copyright owner in a profit-maximizing opportunity, as we shall see. In this capacity, the factors facilitate the assessment of fair use by guiding the courts' efforts to identify the equities involved in a given dispute. Making sure that the assessment is as thorough and manageable as possible, the factors are there to minimize the possibility of error by setting the appropriate standard and, ideally, reduce the necessity for appellate review.¹³⁰ Beyond that, the four factors are relied upon to define the level of care owed by third parties to the interests of the rights

128. On this problem, see Frederick Schauer, *Exceptions*, 58 U. CHI. L. REV. 871, 897 (1991) (discussing how "ruleness" retains its nature even if ad hoc exceptions overriding the rule in exigent circumstances are possible and noting how the power to create ad hoc exceptions may involve the power to change the rule). In the case of copyright, the underlying rule of reason suggests exactly that while ad hoc exceptions are welcome, the default rule should not be changed at the stage of adjudication. Importantly, however, fair use should not be treated as an exception that should be construed narrowly. Quite the contrary, it should enjoy the exact scope attributed to it by the underlying rule of reason. See PATRY, *supra* note 98, § 2:5.

129. Hence, the tort of copyright infringement is designed in a manner so that undesirable features of rules like over- and under-inclusiveness or utter selfishness are corrected through the application of the fair use doctrine while the inefficiency of the negligence standard in optimally securing authorial incentives and allocating property rights is corrected by the strict liability rule.

130. See Leval, *supra* note 121, at 1110–11; Joseph P. Liu, *Two-Factor Fair Use?*, 31 COLUM. J.L. & ARTS 571, 575–76 (2008) (arguing that such proxies are generally useful in reducing the informational considerations courts have to take into account at a manageable level); see also Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CALIF. L. REV. 1581, 1601–03 (2006) (relying on empirical studies of decision making to highlight the importance of core factors in deciding complex issues); Kaplow, *supra* note 93, at

holder. At this stage, this Article briefly sketches these concepts to examine them more thoroughly in Part V, the Part dedicated to case law analysis.

Starting with the first factor, which calls us to consider the nature and the character of the use, the potential social benefit of a given use is assessed by asking whether the secondary user has created something that simply supersedes the objects of the original work¹³¹ or instead “adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message.”¹³² Under this approach, a parody, for instance, generates social value by contributing another viewpoint to our understanding of an earlier work.¹³³ A service that allows us to search for particular terms within a long text may provide us with information about the books available in the marketplace.¹³⁴ But creating a trivia quiz book testing the public’s knowledge of the characters and the plot of a TV show would not amount to fair use where the secondary user essentially repackages scenes from the earlier work without serving any further transformative purpose, such as criticism or parody.¹³⁵ Transformative-ness is thus an indication that the new use has something to offer in terms of added social utility.¹³⁶ Under the same factor, courts must also consider whether there is some commercial motivation behind the defendant’s acts.¹³⁷ Courts would have to inquire upon whether the defendant has been engaging in some sort of welfare-enhancing activity rather than seeking to derive financial gain from the market value of the earlier work.¹³⁸ Surely, if commercialism were given presumptive force, even the illustrative uses listed in the preamble of section 107 of the Copyright Act would qualify as unfair uses since news reporting, comment, criticism, teaching, scholarship, and research are

566–67 (distinguishing between simple and complex standards whereby the degree of complexity depends on the number of factors to be considered).

131. *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4901).

132. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994).

133. *Id.*

134. *Authors Guild v. Google, Inc.*, 804 F.3d 202, 214–18 (2d Cir. 2015).

135. *Castle Rock Entm’t, Inc. v. Carol Publ’g Grp., Inc.*, 150 F.3d 132, 142–43 (2d Cir. 1998).

136. *Leval*, *supra* note 121, at 1111.

137. *Campbell*, 510 U.S. at 584.

138. *MCA, Inc. v. Wilson*, 677 F.2d 180 (2d Cir. 1981) (“The court should also look at the purpose and character of the alleged infringing use, including its commercial or non-profit educational motivation or design. While commercial motivation and fair use can exist side by side, the court may consider whether the alleged infringing use was primarily for public benefit or for private commercial gain.”); *see also* *Princeton Univ. Press v. Mich. Document Servs., Inc.*, 855 F. Supp. 905, 909 (E.D. Mich. 1994) (citing the magistrate judge’s report, which found that the reproduction of course materials by a commercial copyshop amounted to “pure copying for profit”).

normally conducted for profit.¹³⁹ At times, commercial gain would be vital to the maintenance of optimal activity levels for expressive uses by securing financial support. In practice, minor importance is usually ascribed to the commercial aspects of an otherwise socially desirable secondary use.¹⁴⁰

Apparently, transformativeness and commercialism express equities related both to the profit-maximizing incentives that authors require and the broader utilitarian goals of copyright. At the same time, these two terms refer to different dimensions of care. The more transformative the new use, the less likely it becomes that the defendant has failed to exercise due care toward the legitimate interests of the copyright owner.¹⁴¹ Duties of care may also be imposed by determining the intensity of commercial activity that a secondary user is allowed to exercise.¹⁴²

The second factor instructs us to consider the nature of the earlier work. Protection of factual works should be thin¹⁴³ as the dissemination of information constitutes a core value of copyright policy.¹⁴⁴ The pure dissemination of facts is also unlikely to interfere with the internalization of benefits that copyright aims to effectuate. The opposite is more likely to happen where original expression is copied. Under this factor, courts also consider the interest of authors in the right to control the first publication of their works, which is also of great economic importance.¹⁴⁵ Special cases excluded, it is seldom that the second factor turns out to be decisive when assessing fair use.¹⁴⁶ Negligence standards emerging from fair use adjudications essentially define precautionary measures by determining the qualitative aspects of permissible copying.

Similar to the second factor, the third factor's role is primarily directed at determining an appropriate level of care. Hardly ever does the assessment under the third factor play a determinative role.¹⁴⁷

139. *Campbell*, 510 U.S. at 584.

140. GOLDSTEIN, *supra* note 7, § 12.2.2–12:28.

141. *Authors Guild v. Google, Inc.*, 804 F.3d 202, 219 (2d Cir. 2015).

142. *Seltzer v. Green Day, Inc.*, 725 F.3d 1170, 1175–78 (9th Cir. 2013).

143. *New Era Publ'ns Int'l., ApS v. Carol Publ'g Grp.*, 904 F.2d 152, 157 (2d Cir. 1990) (“[T]he scope of fair use is greater with respect to factual than non-factual works.”).

144. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 563 (1985) (“The law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy.”).

145. *Id.* at 564–69; *Salinger v. Random House, Inc.*, 811 F.2d 90, 97 (2d Cir. 1987).

146. Beebe, *supra* note 84, at 584.

147. *Id.* The second and the third factor were deemed to be of limited relevance in major fair use cases such as *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 449–50 (1984), *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 589 (1994), *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1522, 1526–27 (9th Cir. 1992), and *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 98 (2d Cir. 2014).

The essential question addressed by the said factor could be phrased as follows: Given the social value of the secondary use and the reduction in authorial benefits that it involves, how much is the defendant able to copy without running afoul of the respective negligence standard? Of course, the greater the amount and the substantiality of the material copied, the less likely it becomes for the secondary use to have the social value of a transformative use,¹⁴⁸ while the likelihood of the defendant impermissibly encroaching upon the economic benefits reserved for the rights holder increases.¹⁴⁹ The courts would often identify specific parts of an earlier work such as the “core” or the “heart” of a song, a book, or a video.¹⁵⁰ Such determinations can also be seen as parameters of due care. In view of the social value contributed by a parody, the parodist’s duty of care usually does not involve an obligation not to copy the very “heart” of an earlier work because otherwise the socially beneficial use would be disproportionately suppressed.¹⁵¹ But someone who appropriates the informative essence of an unpublished work before its publication has obviously failed to exercise due care.¹⁵²

Often characterized as the most important of all factors,¹⁵³ the fourth factor inquires upon the economic harm that the copyright owner has to sustain in case the secondary use escapes liability and whether this is proportional to the accruing social benefit as already identified under the first factor.¹⁵⁴ As a rule, the internalizing function of the copyright owner’s exclusive right “should be extended into every corner of copyright use.”¹⁵⁵ The grant of the legal exclusivity is perceived as a profit-maximizing opportunity even though it is meant to promote broader utilitarian aims. Since the copyright owner would often have to partially forego some of the economic benefits associated with his or her exclusive legal position, case law has divided the incentives package into identifiable parts or market segments¹⁵⁶ not only

148. *Campbell*, 510 U.S. at 587.

149. *Id.*; *Authors Guild v. Google, Inc.*, 804 F.3d 202, 221 (2d Cir. 2015).

150. *L.A. News Serv. v. KCAL-TV Channel 9*, 108 F.3d 1119, 1122 (9th Cir. 1997). Other courts use these terms as proxies. *See Salinger*, 811 F.2d at 98–99.

151. *Campbell*, 510 U.S. at 588.

152. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 600–01 (1985).

153. *Princeton Univ. Press v. Mich. Document Servs., Inc.*, 99 F.3d 1381, 1385 (6th Cir. 1996) (“We take it that this factor, ‘the effect of the use upon the potential market for or value of the copyrighted work,’ is at least *primus inter pares*, figuratively speaking, and we shall turn to it first.”).

154. Hence, the main considerations underlying the fair use analysis are strongly reflected in the first and the fourth factors. One may accordingly wonder whether the assessment of the fair use defense could gain in predictability by relying upon a two-factor test. *See Liu, supra* note 130.

155. GOLDSTEIN, *supra* note 7, § 12.2.2–12:61.

156. In that regard, courts engage in assessments that are akin to the definition of a relevant market for the purposes of applying the antitrust laws. While market definition in antitrust law seeks to examine the degree of competitive pressure

with the aim of balancing the equities involved but also to determine levels of care. Courts would identify “core,” “traditional markets,”¹⁵⁷ “original” or “primary markets,”¹⁵⁸ “markets likely to be developed,” “potential markets” or “reasonable markets”¹⁵⁹ to identify whether a certain loss of economic benefits is justifiable in light of the social utility that the new user offers. Such questions emerge when courts have to assess, for instance, whether a photographer is entitled to prevent an appropriation artist from including one of his or her photos into a collage and selling it.¹⁶⁰ Reasonable markets, that is, markets that are neither developed nor already envisaged as part of a broader business expansion plan, would normally be internalized to the benefit of the copyright owner.¹⁶¹ Courts also use the terms “alternative” or “further” markets¹⁶² to refer to the economic interest of copyright owners in seeking rents in markets that have opened up long after the point of creation as a result of some unexpected technological break-

that the defendant faces, the delineation of a relevant market for copyright purposes is necessary for determining the scope of the right. Defining a relevant market in the context of copyright infringement proceedings while assessing fair use aims at implementing the copyright rule of reason. *Cf.* *Image Tech. Servs., Inc. v. Eastman Kodak Co.*, 125 F.3d 1195, 1216–17 (9th Cir. 1997) (“The relevant market for determining the patent or copyright grant is determined under patent or copyright law.”).

157. *Am. Geophysical Union v. Texaco*, 60 F.3d 913, 927 (2d Cir. 1994).

158. *L.A. News Serv. v. KCAL-TV Channel 9*, 108 F.3d 1119, 1123 (9th Cir. 1997).

159. *Castle Rock Entm’t, Inc. v. Carol Publ’g Grp., Inc.*, 150 F.3d 132, 145–46 (2d Cir. 1998); *Am. Geophysical Union*, 60 F.3d at 930.

160. *Blanch v. Koons*, 467 F.3d 244 (2d Cir. 2006).

161. *Castle Rock*, 150 F.3d at 145–46 (considering whether the right to market a quiz book based on a TV show laid with its producer who owned the respective copyright and not the defendant, ultimately ruling that the fourth factor cut against the finding of fair use). As the Second Circuit explained,

Although *Castle Rock* has evidenced little if any interest in exploiting this market for derivative works based on *Seinfeld*, such as by creating and publishing *Seinfeld* trivia books (or at least trivia books that endeavor to ‘satisfy’ the ‘between-episode cravings’ of *Seinfeld* lovers), the copyright law must respect that creative and economic choice.

Id. at 146–47. The defendant’s use was deemed unfair primarily because it lacked transformative character without the court having to balance such harm with some sort of social benefit generated by the secondary use). *Id.* at 147. In the same litigation, the lower court observed that “[i]t would . . . not serve the ends of the Copyright Act—i.e., to advance the arts—if artists were denied their monopoly over derivative versions of their creative works merely because they made the artistic decision not to saturate those markets with variations of their original.” *Castle Rock Entm’t v. Carol Publ’g Grp., Inc.*, 955 F. Supp. 260, 272 (S.D.N.Y. 1997); *see also* *Salinger v. Random House, Inc.*, 811 F.2d 90, 99 (2d Cir. 1987) (“[T]he need to assess the effect on the market for *Salinger*’s letters is not lessened by the fact that their author has disavowed any intention to publish them during his lifetime. [The copyright owner] has the right to change his mind. He is entitled to protect his opportunity to sell his letters, an opportunity estimated by his literary agent to have a current value in excess of \$500,000.”).

162. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1017 (9th Cir. 2001).

through. Authorial incentives would be reduced if it were prescribed beforehand that new and particularly lucrative means of exploitation should not be available to copyright owners.¹⁶³ As the Supreme Court has stressed, authors even have a reasonable expectation to benefit from any renewals or extensions of the copyright term legislated while their copyrights are still in force.¹⁶⁴ Copyright protection would be rendered pointless if the secondary use essentially deprives the copyright owner of his or her “traditional markets.”¹⁶⁵

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163. Gordon, *An Inquiry into the Merits of Copyright*, *supra* note 58, at 1385. The flexibility of the fair use doctrine provides the courts with some leeway to reconsider the optimal scope of governance rules within a framework based on an exclusion strategy when the social or economic value of the work is rising. On this aspect of property rights, see Smith, *supra* note 66.
164. *Eldred v. Ashcroft*, 537 U.S. 186, 189 (2003) (upholding the constitutionality of the 1998 Sonny Bono Copyright Term Extension Act, which was enacted to extend the copyright term). *Cf.* WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 228–34 (2003) (arguing that ad hoc extensions of protection might be necessary to provide *ex post* incentives for maintaining or even increasing the economic value of a work).
165. Market definition, in the sense of identifying the markets in which the rights holder is allowed to seek rents, differs from the need to refer to a given market in order to assess antitrust harm. This is because the plaintiff's markets may include uses related to products that are not (close enough) substitutes—such as the TV series and the respective trivia book involved in *Castle Rock*. Antitrust law is concerned with the acquisition of market power that may allow the defendant to reduce output, increase prices, exclude competitors, or impede innovation. Copyright law, on the other hand, focuses on a different type of harm consisting in the reduction of authorial incentives, which results from encroachments upon plaintiff's markets. On those differences, see Herbert J. Hovenkamp, *Markets in IP and Antitrust*, 100 *GEO. L.J.* 2133, 2148–49 (2012), and Mark A. Lemley & Mark P. McKenna, *Is Pepsi Really a Substitute for Coke? Market Definition in Antitrust and IP*, 100 *GEO. L.J.* 2055, 2074–75 (2012). Driven by the need to clarify the doctrine of fair use on the grounds of a robust underlying principle, Judge Posner sought to derive principles for the administration of the fair use standard from the antitrust analysis for identifying a relevant market in *Ty, Inc. v. Publications International*, 292 F.3d 512 (7th Cir. 2002). Adopting an antitrust lens, the opinion suggested that copying which is complementary to the original work, in the same vein that nails are considered complementary to hammers, amounts to fair use because in those instances there is no substitution and, therefore, no market harm. Hence, the publishing of guides about some copyrighted stuffed animal toys called “Beanie Babies” was found to be fair use under this notion. An additional step was required, however, to complete the analogy since copyright could be relied upon to enjoin uses giving rise to derivative works that are not substitutes of the original work. To draw the full analogy, Judge Posner suggested that infringement should be affirmed whenever the defendant's copying substitutes not only for the original work but also for its derivatives. This approach is appealing to some scholars who believe that the market concept is too broadly conceived in the field of copyright law resulting in overbroad exclusive rights. See Anna F. Kingsbury, *Market Definition in Intellectual Property Law: Should Intellectual Property Courts Use an Antitrust Approach to Market Definition?*, 8 *INTELL. PROP. L. REV.* 63, 88 (2004); Sara K. Stadler, *Relevant Markets for Copyrighted Works*, 34 *J. CORP. L.* 1059 (arguing that the scope of copyrights should extend only to cases where there is reasonable interchangeability of crea-

Importantly, those identifiable markets serve also as means to define the requisite level of care. A court may rule, for example, that copying is allowed only to the extent that a given type of market is not harmed. To the extent copying is restricted to that level, the defendant can argue that he or she has managed to comply with the negligence standard imposed.¹⁶⁶

E. Administrating the Multifactorial Test

Any fair use assessment should result from a balancing of the equities manifest in each one of those factors. The proper administration of a multifactorial test requires an assessment of how each individual relevant aspect is capable of affecting the outcome. This must involve a proper correlation of the factors. In *Campbell*, a case involving a rap group recording their own parodic rendition of the song “Pretty Wo-

tive products). Professor Nimmer had formulated a pure copyright theory, which is generally known as the “functional test.” See NIMMER & NIMMER, *supra* note 72, § 13.05[A][5][b], at 13-211. His approach is antithetical to the transformative use paradigm in the sense that it sought to re-shift the focus on the fourth factor. The “functional test” asks whether the earlier and the later work share the same function. A comprehensive review of that theory lies beyond the scope of this footnote as well as this Article. While the “functional test” provides a rational explanation for exempting some secondary uses like parodies or may, for instance, elucidate the reason why the publication of a short abstract from a biography did not qualify as fair use in *Harper & Row*, it essentially ends up distorting the fair use analysis. Foreseeable or not, some complementary uses offer attractive licensing opportunities for copyright owners who may decide during the copyright term to exploit them. Rather than categorically excluding secondary uses from plaintiff’s markets, it is preferable to have the issues resolved through an actual administration of the standard, which requires a proper balancing of the equities involved. It is in this way that the welfare-maximizing solution will be reached. Concluding on the issue of market definition in IP, it is not necessary, in my view, to resort to antitrust methodologies. Market definition, at least for the purposes of applying the fair use doctrine, could be understood in very loose terms as a process of determining market segments in order to make a decision about whether an identified piece of a bigger pie should go to the copyright owner. In this way, a relevant market is defined for the purposes of identifying the particular harm that copyright laws seek to redress. The idea of adopting a functional approach to market definition is probably what market references in the context of the application of the fair use doctrine and the scrutiny about antitrust injury in a given market have in common. On the need for a functional approach to market definition in antitrust cases, see generally Louis Kaplow, *Why (Ever) Define Markets?*, 124 HARV. L. REV. 437 (2010).

166. As the statutory list of relevant factors is not exhaustive, courts may consider additional factors other than those explicitly mentioned in section 107, including defendant’s bad faith. See NIMMER & NIMMER, *supra* note 72, § 13.05[A][5][b], at 13-206.8–13-207. This aspect of the fair use analysis mirrors the approach taken by the broad “balancing test” resorted to by courts concretizing a negligence standard which involves a consideration of the alleged tortfeasor’s moral status or the utility of his conduct to the society and third parties. See generally DOBBS, HAYDEN & BUBLICK, *supra* note 95, § 160.

man,” the Supreme Court elaborated upon the interrelationships between the four factors.¹⁶⁷

A highly transformative secondary use is less likely to give rise to substitutes for the original or its plausible derivatives.¹⁶⁸ While inquiring upon whether the amount and substantiality of the appropriated material suggested that the secondary use is fair or not under the third factor, the Court noted that due consideration must be given to the defendant’s justification, that is, the social benefit of its actions, which emerges from the considerations underlying the first factor.¹⁶⁹ As a rule, the extent of permissible copying varies according to the purpose and the character of the use at hand.¹⁷⁰ Once the extent of copying has been measured both in quantitative and qualitative terms, judges can also assess the capacity of the secondary use to give rise to an effective market substitute for the original work or to usurp a plaintiff’s markets for licensed derivatives. The latter observation highlights the interrelationship between the third and fourth factors.¹⁷¹

A proper fair use analysis must draw those dialectical interrelationships between the various equities manifest in the four factors.¹⁷² Case law has ample examples of the courts either tallying the four factors according to their inclinations to favor the position maintained by one of the parties to the dispute or failing to draw the necessary correlation between the equities involved.

In *Sony*,¹⁷³ the Supreme Court opined that commercial uses should be presumptively unfair not only in an attempt to increase the predictability of the fair use analysis but also to secure solid protection for the authorial incentives as one of the aspects relevant to the overall assessment. The Supreme Court retreated, however, from that position in *Campbell*, where it stressed the importance of correlating all the equities emerging from the consideration of the individual factors.¹⁷⁴ Seeking to strengthen their legal position, plaintiffs have un-

167. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994). On the general precedential value and influence of *Campbell*, see Pierre N. Leval, *Campbell as Fair Use Blueprint*, 90 WASH. L. REV. 597 (2015).

168. *Campbell*, 510 U.S. at 591; *Authors Guild v. Google, Inc.*, 804 F.3d 202, 214 (2d Cir. 2015).

169. *Campbell*, 510 U.S. at 586–87.

170. *Id.*

171. *Google*, 804 F.3d at 221.

172. *Campbell*, 510 U.S. at 578 (“Nor may the four statutory factors be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright.”); see also *Pac. & S. Co. v. Duncan*, 744 F.2d 1490, 1495 (11th Cir. 1984) (elaborating upon the Supreme Court’s analysis of the four factors); 2 HOWARD B. ABRAMS, *THE LAW OF COPYRIGHT* § 15:31, at 15–65 (2013) (explaining that the four factors are meant to be considered together).

173. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 449 (1984).

174. *Campbell*, 510 U.S. at 583–85.

successfully sought to prompt the courts to rely on presumptions such as the one invoked in *Williams & Wilkins*,¹⁷⁵ where a publishing house was not successful in persuading the court that the appropriation of an entire work should never amount to fair use. Even transformativeness itself, which has been elevated to a consideration of prime significance due to the social value of the new use, does not determine the outcome of the fair use analysis without being considered in correlation with the other factors first.¹⁷⁶

As a true negligence standard meant to be administrated on the basis of a case-by-case analysis, the fair use calculus could not be bound to the chariot wheels of generalized per se rules and a priori presumptions.¹⁷⁷

F. Copyright Infringement as a Bilateral Accident: When the Rights Holder Has an Incentive to Exercise Due Care

Various aspects of copyright law can be perceived as designed to induce potential plaintiffs to exercise due care so as to minimize the costs of copyright accidents even under a strict liability regime. The risk of accidental infringement, for instance, may be alleviated through notice and registration.¹⁷⁸ Albeit not compulsory, the observation of those formalities is strongly encouraged by the statute.¹⁷⁹ Copyright owners could further reduce the risk of accidental infringe-

175. *Williams & Wilkins Co. v. United States*, 487 F.2d 1345, 1353 (Ct. Cl. 1973), *aff'd*, 420 U.S. 376 (1975).

176. *Kienitz v. Sconnie Nation LLC*, 766 F.3d 756, 758 (7th Cir. 2014).

177. William F. Patry & Shira Perlmutter, *Fair Use Misconstrued: Profit, Presumptions, and Parody*, 11 CARDOZO ARTS & ENT. L.J. 667, 708 (1993). Cf. Lloyd L. Weinreb, *Fair's Fair: A Comment on the Fair Use Doctrine*, 103 HARV. L. REV., 1137, 1138 (1990) (noting that what amounts to fair use must be deducted from concrete cases).

178. Bracha and Goold argue that in cases of accidental infringement, the observation of formalities constitutes a measure that defendants may take to minimize the risk of copyright accidents. In their view, the tort of copyright infringement should be restructured to require plaintiffs to establish fault in action as an element of their prima facie case. Bracha and Goold, *supra* note 5, at 1037–40. That would indeed render copyright infringement a negligence tort. In the meantime, they argue, the doctrine of fair use could accommodate the concerns associated with accidental copyright infringement by exculpating those defendants who have exercised due care. *Id.* at 1080–90; see also Ruth Okediji, *Givers, Takers, and Other Kinds of Users: A Fair Use Doctrine for Cyberspace*, 53 FLA. L. REV. 107, 155–56 (2001) (noting that formalities, along with other requirements for copyright protection such as fixation, facilitate access-welfare objectives).

179. Copyright Act § 401(d), 17 U.S.C. § 401(d) (2012) (the defense of innocent infringement cannot be relied upon to mitigate statutory damages when proper notice has been attached to the copies of the work); Copyright Act § 401(a) (registration of the work gives rise to a prima facie presumption of the validity of the copyright).

ment by disseminating information about the copyright status of their works.¹⁸⁰ It seems that even under a strict liability regime, copyright owners would have an incentive to exercise due care to avoid infringement whenever they reckon that avoiding litigation is preferable despite the availability of strong compensatory remedies.¹⁸¹ And there is always the option to control the access to copyrighted works through the introduction of permission systems or the adoption of digital rights management to eschew infringement.

Under the fourth factor, the plaintiff will often prevail if the secondary use encroaches upon already developed markets. Where the plaintiff has not created a market, the likelihood of a fair use finding increases. Therefore, the rights holder can minimize the expected cost of an accident by developing a specific market before it becomes occupied by potential defendants.¹⁸² At the very least, accident costs will be reduced because in the very same market it will be possible both for the copyright owner to enjoy economic benefits and for third parties to engage in welfare-enhancing secondary uses to the extent that the fair use defense allows it. Since the requisite level of care refers to the development of a given market and therefore it is known to the court, the assessment of the fourth factor would under such circumstances function as revealing a negligence standard with which the plaintiff failed to comply and third parties in a similar position have to consider.

180. Bracha and Goold, *supra* note 5, at 1047.

181. *Id.* at 1048.

182. Developing a market that seemed to be simply potential at the moment of creation reduces the cost or the risk of an accident but does not eliminate it. The copyright owner may not without more pre-empt exploitative uses within a market simply because he or she has managed to develop that market. *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605 (2d Cir. 2006) illustrates that point. Defendant's book, *Grateful Dead: The Illustrated Trip*, which takes the reader through the history of the well celebrated rock band, contained thumbnail images of copyrighted concert posters. After finding that the secondary use was transformative, the Second Circuit noted that the fact that the plaintiff had already been engaging in the licensing of its images for use in book publications did not tilt the balance of equities in its favor. Quoting *Castle Rock*, the court further observed that "[i]n a case [of transformative secondary use], a copyright holder cannot prevent others from entering fair use markets merely 'by developing or licensing a market for parody, news reporting, educational or other transformative uses of its own creative work.'" *Id.* at 615–16 (quoting *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.*, 150 F.3d 132 (2d Cir. 1998)). Licensing behavior should not be determinative without more. Before giving effect to current licensing practices, we should consider whether the market emerged as a result of excessive risk aversion causing the defendants to request a license with respect to a use that is otherwise fair. On this point, see Wendy J. Gordon, *The 'Why' of Markets: Fair Use and Circularity*, 116 YALE L.J. POCKET PART 358 (2007) (refining the analysis of James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882 (2007), who argued that markets characterized by excessive risk aversion should not be relevant to the fair use analysis).

Sometimes, a market may not exist because of prohibitive transaction costs.¹⁸³ Quite often, such market failures would be remedied by centrally administrated licensing schemes or some other form of licensing innovation. Where the court possesses the information necessary for remedying the market failure, it would make a relevant reference stressing what the plaintiff has failed to do, thereby essentially giving notice of his or her failure to comply with a negligence standard. Where such information is unavailable, courts should generally refrain from affirming fair use without first examining the possibility of their ruling interfering with the development of licensing schemes in the marketplace. In any event, the plaintiff would have an incentive to exercise due care since he or she is the ultimate bearer of the accident's costs.¹⁸⁴ Hence, a plaintiff's incentive would be either to remedy the market failure or to create sufficient financial incentives for others to do so. Such potential losses of copyright owners would in all likelihood induce third parties to facilitate the emergence of a market on their own initiative. Rights holders may take other precautionary measures to control the access to their works such as the adoption of permission systems or digital rights management.¹⁸⁵

Indirect appropriability is another means for a copyright owner confronted with new copying technologies to exercise care toward the vitality of his or her own economic interests by charging higher prices for the original copies of the works that will eventually form the basis for further unauthorized copying.¹⁸⁶ Journal photocopying is an example thereof.¹⁸⁷ Copyright owners can appropriate the value of unauthorized copying taking place within libraries or research organizations if they charge such institutions with subscription fees that are higher than those applicable to individuals. When assessing fair use, courts consider the options plaintiffs have in order to minimize the expected costs of an accident and, as we shall see, the result of the fair use analysis is meant to induce the copyright owner to take those precautions that are cost-efficient.¹⁸⁸

183. See Gordon, *Fair Use as Market Failure*, *supra* note 126.

184. This is another application of the general principle that a rule of negligence would be efficient even without a defense of contributory negligence. See POLINSKY, *supra* note 23, at 50.

185. Technical protection measures should not undermine fair use. This Article will not address this problem. See generally Pamela Samuelson, *Possible Futures of Fair Use*, 90 WASH. L. REV. 815, 859–62 (2015) (reviewing the literature on the topic and arguing that fair use adjudication will eventually clarify the circumstances under which technical restrictions may be overridden).

186. Liebowitz, *Back to the Future*, *supra* note 97, at 6.

187. See generally S. J. Liebowitz, *Copying and Indirect Appropriability: Photocopying of Journals*, 93 J. POL. ECON. 945 (1985).

188. Collection of evidence could also be perceived as a dimension of care. While the burden of persuasion rests with the defendant, the plaintiff has an incentive to collect information about risks to his or her markets stemming from specific sec-

V. CASE LAW ANALYSIS

A. Institutional Photocopying

The relevant activity that should be regulated lies in the reproduction of lawfully acquired copies, especially of literary works by research-driven enterprises such as corporate research departments, medical institutions, or consultancy firms. A concomitant of the "reprographic revolution," the newly established possibility of creating multiple copies of printed material at a low cost, raised concerns over the effect of excessive copying on the policies that copyright is supposed to promote. It was the Court of Claims that found itself in the tight spot of having to rule on this issue first.

In *Williams & Wilkins v. United States*,¹⁸⁹ a publisher of medical journals and books sued the government alleging infringement of its copyrights through unauthorized photocopies made by the National Institute of Health (NIH) and the National Library of Medicine (NLM).

Before getting into any formal analysis of the four factors, the court placed emphasis on the precautionary measures that defendants had already carried through to prevent the infliction of harm to the copyright owner's interests.¹⁹⁰ NIH's policy accommodated photocopying requests limited to a single article from a journal issue. No more than fifty pages could be photocopied.¹⁹¹ NLM, a virtual treasury of the world's medical literature, took up the role of a caterer to other libraries and intellectually-oriented institutions through an inter-library loan scheme.¹⁹² Loans would often take the form of gratis photoduplicates that the user was not obliged to return.¹⁹³ Again, each request was limited to one photocopy of a particular journal article.¹⁹⁴ Individual users could not place more than twenty requests per month.¹⁹⁵ For institutions, the number of permissible requests rose to thirty.¹⁹⁶ NLM would reject requests to copy more than one article per journal issue or more than three articles per journal volume. Any copies made bore a note clarifying that they were made in lieu of lending the original work.¹⁹⁷ As a general rule, such loan requests could not

ondary uses since he or she is the residual bearer of the accident's costs. The absence of any evidence of harm on behalf of the plaintiff would make it easier for the defendant to live up to the onus of showing that his or her use does not involve the infliction of harm that is cognizable under copyright law.

189. *Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973).

190. *Id.* at 1348-49, 1354.

191. *Id.* at 1348.

192. *Id.*

193. *Id.*

194. *Id.*

195. *Id.* at 1349.

196. *Id.*

197. *Id.* at 1348.

be placed with respect to articles featured in some specific journals, which were deemed to be widely available because they were recently published and formed part of collections maintained in regional medical libraries.¹⁹⁸ The policies of both institutions were generous enough to recognize some exceptions to those general rules without substantially altering the level of photocopying activity resulting from the libraries' practices. Finally, those researchers who obtained copies of the journal articles were not likely to create further copies with a view to making profit from their sale.

The court's trepidation in affirming fair use reflected concerns about ensuing hindrances to medical and scientific research in case the plaintiff was successful in his claim.¹⁹⁹ Researchers would have to cut down their reading or engage in time consuming hassles such as extensive note taking in a remote library to collect the materials they need to study in the convenience of their working place. What tipped the balance of equities in favor of the defendant was the fact that the plaintiff was not able to substantiate actual harm suffered as a result of the defendant dealing with its works.²⁰⁰ Evidence of subscriptions cancelled due to the availability of photocopying was inconsequential. In fact, the record showed a substantial increase in annual subscription sales, as did the plaintiff's annual taxable income. The plaintiff's business had actually been growing faster than the country's GDP.²⁰¹ Apart from that, any evidence of infringing use concerned no more than a small part of the plaintiff's turnover. In the absence of actual harm, the court had no reservation about giving the prevalence to the public interest of promoting medical research.²⁰²

Although the use of the original works did interfere with the internalizing function of the plaintiff's copyrights since some licensing opportunities had been foregone, the court was adamant that such reduction of the benefits included in the "incentives package" would be exceedingly outweighed by the social gains in augmented medical research accruing from the secondary use.²⁰³ Hence, despite the decrease in benefits that could be internalized in favor of the rights holder, the defendant was deemed to have exercised due care.²⁰⁴

198. *Id.* at 1349.

199. *Id.* at 1356–57.

200. *Id.* at 1359.

201. *Id.* at 1357.

202. *Id.* at 1359.

203. *Id.* at 1354.

204. The decision of the Court of Claims has been criticized on the grounds that it did not take into account the cumulative effect on plaintiff's markets emerging from copying carried out "by any and all libraries and similar institutions." See NIMMER & NIMMER, *supra* note 72, § 13.05[E][4][c], at 13-252. It seems, however, as our analysis of *Williams & Wilkins* above suggests, that the Court of Claims practically imposed a personalized standard of care considering the nature and the function of the specific libraries involved, the plaintiff's business model, and the

While determining the requisite level of care, the court took into account the defendants' nature as public non-profit institutions devoted to the dissemination of medical knowledge.²⁰⁵ The defendants were therefore entities particularly capable of increasing the levels of the desired activity toward the optimal level. In addition, the fact that the research featured in the plaintiff's journals had been funded by the state was taken to mean that its copyright should allow for extra "breathing space," at least as far as those particular defendants were concerned, considering the general principle that any attempt to prescribe the exclusionary effect of copyright should reflect an awareness that there is no single work of authorship that is not somehow elaborating upon pre-existing creative efforts. Equally, the court took into account the fact that the authors of the journal articles were not remunerated and the medical societies collaborating to the publishing venture did not pose exorbitant financial demands for their share in the profits.²⁰⁶ This part of the court's analysis could be perceived as practically seeking to personalize the standard of liability.²⁰⁷

contemporary circumstances surrounding funded medical research. Narrowing down that precedent would thus require a very detailed identification of the distinguishing facts.

205. *Williams & Wilkins*, 487 F.2d at 1354.

206. *Id.* at 1359.

207. This is also evident in the concluding remarks of the opinion where the court enunciated its ruling being applicable to the specific set of facts it addressed without exonerating from liability other instances of photocopying. Exactly on that score, one could distinguish other cases where photocopying is carried out by different categories of defendants. In *Princeton University Press v. Michigan Document Services, Inc.*, 99 F.3d 1381 (6th Cir. 1996), for instance, the court held that photocopying of course materials by a commercial copyshop did not amount to fair use. The copying done by the defendants was deemed to be excessive after consideration of "its systematic and premeditated character, its magnitude, its anthological content, and its commercial motivation . . ." *Princeton Univ. Press*, 99 F.3d at 1390. While it remains unresolved whether the outcome would have been different if copying had been carried out by a student or a non-profit educational institution, it seems as if those defendants will eventually be subjected to a standard of care that is different than the one imposed on commercial copyshops. In *Cambridge University Press v. Patton*, 769 F.3d 1232 (11th Cir. 2014), the court found that the first factor favored the defendant professors who had been engaging in a non-profit educational use, which should be exempted from liability "under certain circumstances." *Cambridge Univ. Press*, 769 F.3d at 1267. The court did not proceed to deliver a complete fair use analysis because the case was remanded, but it does indicate that a personalized standard of care would have been applicable. See generally ABRAMS, *supra* note 172, § 15:125. The "Agreement on Guidelines for Classroom Copying in Not-For-Profit Educational Institutions with Respect to Books and Periodicals," H.R. Rep. No. 94-1476, at 68-71, (1976), which has been acknowledged by the House Report as a reasonable interpretation of the minimum standards of fair use, are actually formulated as standards of care. These guidelines are not intended to preempt the fair use analysis. On the latter point, see KENNETH CREWS, COPYRIGHT, FAIR USE, AND THE CHALLENGE FOR UNIVERSITIES - PROMOTING THE PROGRESS OF HIGHER EDUCATION 131-35 (1993).

One could argue that social welfare would be possibly maximized under a scheme where the libraries would have to pay reasonable licensing fees. That would top-up the incentives package without reducing the levels of the desired activity. Workable options included a compulsory licensing regime relying on a clearinghouse collective system or a viable licensing scheme introduced by the plaintiffs.²⁰⁸ The first solution suggests that legislative intervention is necessary because tort law obligations are not capable of inducing both parties to exercise due care. The second solution essentially leaves the plaintiff to bear the costs of the accident, envisaging that he or she would exercise due care, since otherwise he or she would be deprived of licensing fees that the secondary user would be willing to pay.²⁰⁹

The court in *Williams & Wilkins* did not proceed to implement any of those suggestions, succumbing to legislative authority after essentially acknowledging that it did not possess the information required for setting the level of optimal care for the plaintiff.²¹⁰ Notably, the negligence standard imposed on the libraries only induces optimal levels of activity with respect to institutional photocopying that augments medical research. The same standard also promotes the optimal use, and therefore the financing, of reprographic technology. Thus, these two separate activities could be regulated through the same standard of care in that instance.

A negligence standard for the defendant would prompt publishers either to set up a viable licensing scheme or simply engage in effective price discrimination, charging higher fees for institutional subscriptions. Precautionary measures were taken collectively by the industry to develop a voluntary licensing scheme operated by the Copyright Clearance Center (CCC), which acts as an intermediary reducing transaction costs and allowing the conclusion of welfare-maximizing agreements that would not have been possible otherwise.

In *American Geophysical Union v. Texaco*,²¹¹ the Second Circuit ruled that the reproduction of journal articles taking place at the defendant's research department did not amount to fair use since there

208. *Williams & Wilkins*, 487 F.2d at 1360.

209. Compare NIMMER & NIMMER, *supra* note 72, § 13.05[E][4][e], at 13-259 (arguing that intermediate remedies would be helpful in such cases), with Marc R. K. Bungeroth, *Copyright—Photocopying as Fair Use—Williams & Wilkins Co. v. United States*, 16 B.C. INDUS & COM. L. REV. 141, 149 (1974) (taking the opposite view by arguing that the doctrine of fair use compels courts to balance the equities involved in the disputes they have to adjudicate). Intermediate remedies may be helpful in maintaining favorable conditions for markets to emerge. The court in *Williams and Wilkins* was apparently concerned with the progress of medical research during the period between the grant of some intermediate remedy and the point where a viable licensing scheme would be introduced given that the libraries had taken measures to avoid excessive copying.

210. *Williams & Wilkins*, 487 F.2d at 1360-61.

211. *American Geophysical Union v. Texaco*, 60 F.3d 913 (2d Cir. 1994).

existed a convenient means for remunerating the copyright owner.²¹² Evading the CCC system for paying royalties can be paralleled to a failure to exercise due care. Apparently, the cost of the accident is minimized when both parties are induced to exercise care through negligence standards.

Texaco is one of those cases that were rightfully decided with the court applying a correct negligence standard. Nevertheless, the technical analysis of the opinion does not really reflect an assessment of the requisite level of care resulting from a proper balancing of the equities involved. Rather, the analysis of the court seems to have placed grave emphasis on which party could win more of the arguments associated with the four factors. *Texaco* slumped to a 3–1 defeat.²¹³

Regarding the first factor and the nature of the secondary use, the court surmised that *Texaco* narrowly lost out on the “non-profit” argument holding the secondary use to be an “intermediate” one as the defendant’s profits did not directly stem from the copies of the relevant scientific papers.²¹⁴ Assessing the character of the use, the court observed that *Texaco* had been engaging in archival copying.²¹⁵ The copies had not been made with the aim of facilitating any specific research project but were meant to facilitate research efforts within the enterprise, ensuring that no hold ups transpired because more scientists needed to consult the same source. On those terms, *Williams & Wilkins* should be distinguished. Since photocopying “merely transform[ed] the material object embodying the intangible article that is the copyrighted original work,” the secondary use was deemed non-transformative.²¹⁶ Consequently, in the court’s view, the first factor favored the plaintiffs.

While the court was cognizant of the value derived from a more usable format, it did not consider that this should carry any weight in the fair use calculus. Otherwise, the court suggested, any photocopying could potentially be justified as providing for a more convenient format for enjoying an earlier work of authorship.²¹⁷ In that regard, the court’s analysis did not, as a proper fair use analysis requires, actually put the benefit to social welfare accruing from the secondary use in perspective with a view to subsequently assessing whether the defendant’s activities had been excessive in the sense of the latter not having exercised due care toward the interests of the copyright owner as these manifest themselves in the fourth factor. No attempt to correlate the first and the fourth factor was made by the court apart from

212. *Id.* at 931–32.

213. *Id.*

214. *Id.* at 921.

215. *Id.* at 919–20.

216. *Id.* at 923.

217. *Id.* at 924.

stating that Texaco could not rely on the argument that its use was customary since the analysis of the fourth factor suggested that the market participants would now expect the secondary use to be licensed.²¹⁸ Texaco won the second factor as the infringed work was deemed to be of a factual nature.²¹⁹

However, even if the court had ruled that the first factor marginally favored the defendant, which would have levelled the score 2–2, the outcome of the fair use analysis would not have been different after the equities involved were weighted against each other. Only the third factor, which favored the plaintiffs because the defendants had copied the totality of individual works of authorship, was correlated to the first factor as confirming, in the court’s view, the non-transformative character and archival purpose of the copies made.²²⁰ Although the court reiterated the principle that the third factor serves as a proxy for determining whether harm to the plaintiff’s markets is imminent and for assessing whether the amount of copying has been proportional to the welfare enhancing purpose of the new use,²²¹ none of those correlations were properly advanced. A proper correlation between the first and the third factor did not materialize as the court did not put the social benefit accrued from “archival copies” within corporate research departments in perspective. For the rest, the third factor was simply counted as favoring the publishers because Texaco had copied entire works.²²²

After acknowledging harm to the “workable [licensing] market” for institutional users, the court concluded its “aggregate assessment” by stating,

[T]hree of the four statutory factors, including the important first and the fourth factors, favor the publishers. We recognize that the statutory factors provide a nonexclusive guide to analysis . . . but to whatever extent more generalized equitable considerations are relevant, we are in agreement with the District Court’s analysis of them. . . . We therefore agree with the District Court’s conclusion that Texaco’s photocopying . . . was not fair use.²²³

In any event, *Texaco* stands for the proposition that the scope of the copyright owner’s rights would extend to all those newly created markets that the rights holder had not been able to exploit in the past due to prohibitive transaction costs that are no longer present, provided, of course, that the overall fair use analysis dictates a conclusion of the secondary use being unfair. But the plaintiff can only prevail if he or she has exercised due care, that is, if he or she has created the market for that secondary use. Apparently, the negligence standard

218. *Id.*

219. *Id.* at 925.

220. *Id.* at 926.

221. *Id.*

222. *Id.*

223. *Id.* at 929–32 (citations omitted).

imposed generates incentives for third parties to come up with innovative licensing schemes or technologies drastically reducing transaction costs for which the copyright owner is willing to pay.²²⁴ In many such instances, copyright owners would have an incentive to finance R&D efforts that facilitate the emergence of such markets. Again, the negligence standard for the plaintiff is also apt for regulating the activity levels for third-party innovation.

Concluding its overall assessment of the four factors, the court dealt with the reservations expressed in the dissent of Judge Jacob who reckoned that the majority opinion “has ended fair-use photocopying with respect to a large population of journals.”²²⁵ In its reply, the court stressed that its ruling was confined to the institutional, systematic, and archival copying of the specific journal articles covered by the copyrights in suit, which took place in a specific market context where viable licensing schemes were already in place.²²⁶ Within that statement, the notion is lurking that fair use creates personalized standards of negligence, which will nevertheless develop in broader negligence-based rule-like standards covering all clearly analogous cases.²²⁷

B. Comment and Criticism

The preeminent Nashville music publisher Acuff-Rose music, the party who owned the copyright in the song “Oh, Pretty Woman” written by Roy Orbison and Bill Dees, filed suit against a controversial and provocative rap-group from Miami, the 2 Live Crew, and their record company, Luke Skywalker Records, after they released a hip-hop parody based on that song.²²⁸ Before that, Acuff-Rose had refused the defendant’s offer to authorize the parody in exchange for a fee and a proper attribution of the copyright owner, as well as of the songwriters.²²⁹ Instead of the original romantic references to a pretty woman spotted walking down the street, the parody told the more pejorative tale of a “big hairy woman.”²³⁰ The case eventually reached the Supreme Court, which took the opportunity to clarify the application of the fair use doctrine to parodies.²³¹

224. Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CALIF. L. REV. 1293, 1298–1300 (1996) (showing how market solutions would normally emerge to address such market failures).

225. *Am. Geophysical Union*, 60 F.3d at 931.

226. *Id.* at 931–32.

227. The same principles should apply to photocopying occurring in the course of a law firm’s operation. See ABRAMS, *supra* note 172, § 15:116.

228. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 574 (1994).

229. *Id.*

230. *Id.* at 595.

231. *Id.* at 579–94.

Falling back on dictionary definitions of parody,²³² the Court first sought to ascertain in general terms the type of activity concerned. Under a lexical definition, parody constitutes a “literary or artistic work that imitates the characteristic style of an author or a work for comic effect or ridicule.”²³³ In a similar vein, parody could be defined as a “composition in prose or verse in which the characteristic turns of thought and phrase in an author or class of authors are imitated in such a way as to make them appear ridiculous.”²³⁴ In legal terms, parodic activity involves the appropriation of copyrighted material to create a new work that comments upon the prior work. Parodies enhance social welfare both by generating a new expressive work and “by shedding light on an earlier work.”²³⁵ While assessing the nature of the defendant’s song, the Court noted that the degrading taunts, the bawdy demand for sex and the sigh of relief from paternal responsibility conveyed by its lyrics could be taken as a comment shedding light on the naivete of the earlier work and its era.²³⁶ 2 Live Crew’s parody could be perceived as a rejection of its sentiment and ignorance of the realities of street life. The defendant has therefore indeed been engaging in socially desirable parodic activity.²³⁷ In essence, the Court indicated in its judgement that commercial parodies have an equally legitimate claim to fair use since the social benefit they generate is no less than that involved in purely expressive parodies. In fact, such economic benefit may facilitate the parodists’ efforts to disseminate a given critical commentary or support further parodic activities.

Inasmuch as the parodist is permitted to capitalize upon the elements borrowed from the earlier work, the copyright owner has to forego some of the benefits that his or her exclusive right would have otherwise internalized since the social benefits of parodic expression would normally outweigh any potential losses in authorial incentives that might result from the trimming of the incentives package. A licensing market for purely parodic derivatives should not count as a copyright owner’s “potential market” for the purposes of assessing fair use under the fourth factor since the rights holder is normally inclined to suppress critical reviews of his or her works, as Justice Souter explained.²³⁸ Otherwise, the levels of parodic activity would be lower than the optimum.

With respect to the level of care, parodists may freely appropriate copyrighted material regardless of its creative or factual nature up to

232. *Id.* at 580.

233. *Id.*

234. *Id.*

235. *Id.* at 579.

236. *Id.* at 582.

237. *Id.* at 583.

238. *Id.* at 592–93.

the extent that their expressive purpose requires them to “conjure up” the original.²³⁹ Provided that such due care is exercised, third parties may maximize their levels of parodic activity. Activity levels would not be considered as excessive even when a parody turns out to be so successful that demand for the original work eventually subsides because the consuming public no longer appreciates it anymore. Such harm is not cognizable under the Copyright Act.²⁴⁰ A duty of care toward the interests of the copyright owner is likely to arise when the parodic work develops into a substitute for the original.²⁴¹ Parody, just like other forms of artistic commentary, does not provide third parties with a “carte blanche” to exploit the creative effort of others without paying compensation. Justice Kennedy concurred, stressing this very point by observing that “[i]f we allow any weak transformation to qualify as parody, . . . we weaken the protection of copyright. And underprotection of copyright disserves the goals of copyright just as much as overprotection, by reducing the financial incentive to create.”²⁴²

On remand, the lower court was supposed to examine whether the plaintiff’s markets had indeed been harmed, but the case was eventually settled. By all means, *Campbell* suggests that even when the secondary use amounts to artistic expression or some other form of commentary, it is important to avoid the “parodic or satiric appropriation” of earlier works.²⁴³

Satire is distinguished from parody for it does not target the original work. Rather it uses a pre-existing work as a means to comment upon something or someone else. *Dr. Seuss Enterprises v. Penguin*

239. *Id.* at 588–89.

240. *Id.* at 591–92.

241. Richard A. Posner, *When Is Parody Fair Use?*, 21 J. LEGAL STUD. 67, 71–72 (1992); Beth Warnken Van Hecke, *But Seriously, Folks: Toward a Coherent Standard of Parody as Fair Use*, 77 MINN. L. REV. 465 (1992) (arguing that assessing the potential substitution effect of a parody would allow for a more balanced fair use analysis).

242. *Campbell*, 510 U.S. at 599.

243. Cf. Robert P. Merges, *Are You Making Fun of Me?: Notes on Market Failure and the Parody Defense in Copyright*, 21 AIPLA Q.J. 305, 312 (1993) (arguing that a proper fair use assessment should inquire upon whether “a reasonable market transaction for the right to parody could be envisioned”). For the opposite view, see Harriette K. Dorsen, *Satiric Appropriation and the Law of Libel, Trademark, and Copyright: Remedies Without Wrongs*, 65 B.U. L. REV. 923 (1985); see also NIMMER & NIMMER, *supra* note 72, § 13.05[C][2] at 13-230.1-230.3 (noting that the remand in *Campbell* should be read as an instruction by the court to thoroughly balance the equities involved in parody cases including copyright owner’s rent seeking interests in possible derivative markets and suggesting that parodists only won a “qualified victory” in *Campbell*); Anastasia P. Winslow, *Rapping on a Revolving Door: An Economic Analysis of Parody and Campbell v. Acuff-Rose Music, Inc.*, 69 S. CAL. L. REV. 767 (1996) (recognizing that the likelihood of a voluntary exchange is relevant to the assessment).

*Books U.S.A., Inc.*²⁴⁴ concerned a children's book titled *The Cat in the Hat*, which was written by Theodor Geisel under the pseudonym of Dr. Seuss. The main character of the book is a tall and mischievous anthropomorphic cat, who wears a tall hat with red and white stripes and a bow tie while carrying an umbrella. Out of the blue, the Cat enters the lives of Sally and her unnamed brother to entertain them with its tricks. This book was one of a series aimed at enhancing elementary school literacy. The defendant's book, *The Cat NOT in the Hat! A Parody by Dr. Juice*, imitated the punchy style of the original work using rhymes and simple words to satirize O.J. Simpson's perspective as a person indicted for his wife's murder. Its cover features O.J. Simpson wearing the distinctive hat of Geisel's Cat and looking apathetic while holding a pair of blood-dripping football gloves.²⁴⁵

Satire does not target the original work for the sake of adding to it a new expression or meaning, but rather appropriates copyrighted expression to lampoon an issue of social, political, or economic life. Compared with parody, satire has a weaker claim to fair use, as it does not require the same degree of transformative contribution.²⁴⁶ Copyright owners are less inclined to suppress the emergence of a licensing market for satiric products while third parties are not reliant on a given copyrighted work to make a satirical publication. Balancing the equities involved, the court reached the conclusion that—based on a correlation of the first and the fourth factors—the defendant's derivative use was not fair because of its commercial character, from which the court inferred that market substitution, and therefore market harm, was imminent.²⁴⁷ In effect, the decision creates a negligence standard that permits satire but imposes a duty on third parties to exercise care so as to avoid the hampering of authorial incentives by seeking to derive profit through the satiric appropriation of copyrighted works.

A line of demarcation between parody and satire would not always be easy to draw. At any rate, the decision of the Ninth Circuit in *Dr. Seuss Enterprises v. Penguin Books U.S.A.* is in line with the proposition put forward by the Supreme Court in *Campbell*, namely that a weak transformation might guise an attempt of "satiric appropriation."²⁴⁸

Some of those who have a bone to pick with a copyrighted work because they feel in some way offended by it would be on the lookout for ways of expressing disagreement with its content. With respect to books or movies, for instance, a particularly effective means for

244. *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394 (9th Cir. 1997).

245. *Id.* at 1396–97.

246. *Campbell*, 510 U.S. at 580–81.

247. *Dr. Seuss Enters.*, 109 F.3d at 1403.

248. *Campbell*, 510 U.S. at 599.

achieving this laudable aim is to recast the story told in the original work to be reflective of their own perspective. Critical recasts are rather unlikely to develop market substitution effects in relation to the original work. Hence, the amount and/or substantiality of the elements taken from the prior work constitute the most important parameters for setting the standard of due care. When applying the fair use doctrine, the courts have consistently refrained from imposing duties of care that require third parties to copy, both in quantitative and qualitative terms, less than what is necessary for taking a hand in such transformative critique.

In *Suntrust Bank v. Houghton Mifflin Co.*,²⁴⁹ the allegedly infringing novel, *The Wind Done Gone*, retold the story of *Gone with the Wind* from the perspective of a black slave. The defendant's work hinged on the original's storyline and featured, verbatim, some of its dialogues. While reviewing the third factor, the Eleventh Circuit noted that there was no principle confining the copying of works protected by copyright for criticism purposes to the elements required for "conjuring up" the original.²⁵⁰ Equally, fair use analysis could not give rise to a duty for parodists not to appropriate some central part of a given work that could be perceived as its "heart."²⁵¹

Other sorts of critical commentary would be exempted from liability even when the defendant is iteratively copying elements from several works of the same author in order to write a critical biography of the latter. Aggrieved at the experiences allegedly sustained as a member of the Church of Scientology, Jonathan Caven-Atack offered his own condemnatory views on the life and times of the late L. Ron Hubbard, the man who founded that religious organization.²⁵² His intention was to show the author's claimed true colors as a "paranoid, vindictive, power hungry, petty sadist and profoundly disturbed man" but also to expose Scientology as a "dangerous cult."²⁵³ For this purpose, Caven-Atack had extensively borrowed materials from Hubbard's earlier works, collectively 121 passages from forty-eight copyrighted resources, to write his book *A Piece of Blue Sky: Scientology, Dianetics and L. Ron Hubbard Exposed*. Nevertheless, his productive use of the copyrighted material was deemed fair because the amount copied was proportional to the purpose of authoring a critical biography.²⁵⁴

249. *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001).

250. *Id.* at 1271-74.

251. *Id.* at 1273-74.

252. *New Era Publ'ns Intern., ApS v. Carol Publ'g Grp.*, 904 F.2d 152 (2d Cir. 1990).

253. *Id.* at 154.

254. *Id.* at 158-59.

C. News Reporting

Within the meaning of section 107 of the Copyright Act, the term “news reporting” has been interpreted to encompass not only the coverage of contemporary social events but also the disclosure of any public interest information. News reporting is another kind of activity that should be subjected to a different standard than the strict liability regime governing the general prohibition of trespass upon copyright property. Furthermore, the duties of care imposed on news reporters cannot be identical to those required by other types of secondary users such as appropriation artists. Hence, news reporting should be perceived a separate activity from the perspective of an economic analysis.

One particular feature of this activity is that in many instances the news reporter cannot dispense with verbatim copying of an earlier work when that work simply constitutes the information that should be disseminated. *Swatch Group Management Services Ltd. v. Bloomberg L.P.* provides us with an illustrative example.²⁵⁵ A newshound working for the defendant managed to sneak into a teleconference during which the plaintiff’s officials discussed with various financial analysts the earnings report that the Swatch Group had submitted to the Swiss exchange in compliance with their obligations pursuant to Swiss securities law.²⁵⁶ Contrary to the directive provided to the participants insisting on the call not being recorded for publication or broadcast, Bloomberg’s employee managed to obtain a recording of it.²⁵⁷ When the defendant made its recording available to the subscribers of “Bloomberg Professional,” the plaintiff filed suit for infringement of the copyright in the recording of the teleconference that a provider of audio-conferencing services had prepared for them in the meantime at their request.²⁵⁸ Reaching the point where the defendant’s claim of fair use had to be assessed, the Second Circuit noted that in spite of the secondary use being commercial and non-transformative, the broader public interest in the timely access to accurate business and financial news by investors should be given prominence.²⁵⁹

For the same reason, the court did not consider the defendant’s bad faith which had manifested itself in the use of “clandestine methods” to elicit the relevant data.²⁶⁰ Inducing the optimal activity levels for those collecting information that is valuable to the public presupposes some degree of tolerance toward practices a saint would consider con-

255. *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P.*, 742 F.3d 17 (2d Cir. 2014).

256. *Id.* at 22–23.

257. *Id.*

258. *Id.* at 23.

259. *Id.* at 28–29.

260. *Id.* at 26–27.

troversial. Of course, the lack of a competitive relationship between the parties to the dispute and the absence of any intent on the plaintiff's behalf to commercially exploit its recording co-determined the outcome in *Swatch Group*.²⁶¹

Additional care must be exercised toward the legitimate interests of news purveyors that make profit by selling information to broadcasters and other reporters. If reporting organizations were left unbridled to interfere with those core licensing markets at will, the incentives of independent agencies to gather news would whittle away. During the 1992 Rodney King riots, the broadcast reporters who founded the Los Angeles News Service (LANS) captured video footage of the attack on Reginald Denny from a news helicopter.²⁶² As a result of the video being broadcasted live, the victim's life was spared by a civilian who was able to come to the rescue just in time.

The two copyrighted videos created by LANS appeared under a license in NBC's *Today Show*. The defendants, who had a news supply agreement with NBC News Overseas and were provided with a copy of the show, made their own videotape of the incident using a small portion of the earlier works, which they then transmitted to their subscribers via satellite in Europe and Africa.²⁶³ LANS sought to recover damages attributed to those domestic acts of infringement that gave way to the commercial exploitation of the earlier work abroad.²⁶⁴ Here, the turning point for negating fair use was the substantiality of the part copied by the defendant, which was enough in qualitative terms to allow for the usurpation of the market for the original.²⁶⁵ The defendants had appropriated the "heart" of LANS's videos, the parts that really mattered.²⁶⁶ For sure, the non-transformative and commercial nature of the secondary use spoke in favor of the defendant as well.²⁶⁷ It seems, though, that whenever the courts are assessing whether the defendant has exercised due care in that particular market context, the most important aspect to consider is the interference with the plaintiff's core licensing markets by appropriating copyrighted material of such quality or quantity that those markets are actually harmed.²⁶⁸

261. *Id.* at 27–28.

262. *L.A. News Serv. v. KCAL-TV Channel 9*, 108 F.3d 1119, 1120 (9th Cir. 1997).

263. *Id.*

264. *Id.*

265. *Id.* at 1122.

266. *Id.*

267. *Id.* at 1121–22.

268. *Id.* at 1122–23. News clipping service providers have been held liable for infringing earlier copyrights by selling to their customers copies of expressive content reporting news despite the transformative nature of the secondary use involved since those defendants clearly interfere with markets where news gatherers are supposed to seek rents. *Pac. & S. Co., Inc. v. Duncan*, 744 F.2d 1490, 1495 (11th Cir. 1984) (denying fair use on the grounds of the secondary use being of an un-

The judicial treatment of news reporting either under copyright or under unfair competition laws lays particular emphasis on the licensing culture pervasive in an industry, which involves tacit agreements between market players to cover the cost of reporting through the sharing of news gathered.²⁶⁹ Judges would often resort to custom when lacking the information necessary for setting optimal negligence standards.

Essentially the same standard of care was applied some years later when Courtroom Television Networks (Court TV) plucked a nine-second part of LANS's videos where Damien Williams is depicted throwing a brick on Reginald Denny's head and incorporated it in the teaser spots as well as the introductory montage for its show *Prime Time Justice*.²⁷⁰ The defendants were now covering the trial of Denny's assaulters. There is a temporal dimension to the duties of care owed to news purveyors since news is normally only sellable within the narrow time lag between the moment a journalist discovers an issue and the point where the relevant information is disseminated. Moreover, the parties to the dispute were not competing on the delivery of "hot news" of the same sort. Therefore, the defendants' dealing with the earlier work was not likely to usurp the demand for LANS's copyrighted videos as a historical documentation of the 1992 events.²⁷¹

Regarding the third factor, the court found the amount taken to be substantial—for it was composed of the most recognizable frames of the video—but nevertheless quite small.²⁷² LANS could not persuasively argue that the defendants had appropriated its works' "heart" because in the previous litigation against Reuters it had identified a part lasting forty seconds as being the "core" of the earlier works.²⁷³ Court TV argued that it only took what was necessary for its intended use, namely, to effectively cover the Williams and Watson trial and also to promote their program to potential viewers. Weighing the brevity of the portion taken against its significance, the court concluded that the third factor appeared neutral.²⁷⁴ Hence, the defendant didn't poach enough material from the earlier work to harm LANS's core market for the video footage as historical artifact or to usurp the demand for its rebounded newsworthiness.

productive nature and despite the fact that the plaintiff had not been marketing its news broadcasts in the meantime); *Associated Press v. Meltwater U.S. Holdings, Inc.*, 931 F. Supp. 2d 537 (S.D.N.Y. 2013) (rejecting an analogy between crawlers that extract as well as download content from news websites and search engines, but recognizing that news clipping entails a transformative purpose).

269. *Cf. Int'l News Serv. v. Associated Press*, 248 U.S. 215, 235–36 (1918).

270. *L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924 (9th Cir. 2002).

271. *Id.* at 941.

272. *Id.* at 940.

273. *Id.* at 940–41.

274. *Id.* at 941.

The Ninth Circuit examined, as it was legally obliged to do, the other factors as well. It turned out that the second factor also favored fair use.²⁷⁵ Even if one recognized some creative input in the recording of the videos, it remained that the earlier works were of a factual and informational nature. To some extent, the secondary use was transformative, or at least more transformative than that of the defendants in *Reuters*, since Court TV edited the earlier works and placed them into a new creative context within its show's introductory video, which also served the different purpose of promoting that TV program.²⁷⁶ On the other hand, the use of LANS's works in the teaser videos was obviously less transformative.²⁷⁷ The defendant's use was largely commercial.²⁷⁸ It was observed that the more transformative of the two uses was also the one being more intensively driven by commercial motivation.²⁷⁹ Transformativeness and commercialism operated as cohesive forces cancelling each other out for the purposes of the fair use analysis, prompting the court to rule that the first factor weighted only weakly in favor of fair use.²⁸⁰ With the third factor being neutral and the rest of the factors favoring the defendant, the court had no reservation whatsoever to accept that the secondary use was fair. The opinion drew the various correlations between the fair use variables.²⁸¹

From the court's conclusion, it appears that the factual nature of the earlier work constitutes the most influential parameter for assessing news reporting cases. This makes sense. News is not subject matter protectable by copyright as such. On the other hand, the requisite level of care is primarily determined by reference to the variables associated with the third and the fourth factor. In the context of news reporting, the secondary use does not have to be greatly transformative. And reporting organizations enjoy broad leeway to appropriate copyrighted material for their journalistic purposes in terms of both quality and quantity as long as the plaintiff's core markets are not harmed.

Shortly after Joyce Giraud won the title of "Miss Puerto Rico Universe," a local television channel showed old pictures of her taken by photographer Sixto Núñez.²⁸² A controversy arose as to whether the photos were appropriate for a lady bearing such a title since the young model posed naked or nearly naked for at least one of those photos.²⁸³

275. *Id.* at 940.

276. *Id.* at 938.

277. *Id.*

278. *Id.* at 939.

279. *Id.* at 939–40.

280. *Id.* at 940.

281. *Id.* at 942.

282. *Núñez v. Caribbean Int'l. News Corp.*, 235 F.3d 18, 21 (1st Cir. 2000).

283. *Id.*

Núñez sued *El Vocero*, the Puerto Rican newspaper that published those photos, for copyright infringement.²⁸⁴

Turning to evaluate the fair use defense, the court found that the secondary use was commercially motivated, to a large extent, as the newspaper put the photos on the front page to raise interest in its product.²⁸⁵ At the same time, the defendant's dealing with the earlier works was informative, transforming those photos so as to obtain a further purpose not envisaged by their author. In fact, the newspaper satisfied the demand of the relevant public having a genuine interest in the competition for information about the titleholder's personality.²⁸⁶ Even though *El Vocero* copied entire earlier works, this was still proportional to the informational purpose of the secondary use.²⁸⁷ There was no way, of course, to effectively cover the controversy other than showing the complete photos that had fueled the debate. This led the court to the conclusion that the third factor was not particularly relevant to the case at hand.²⁸⁸ Furthermore, the court was convinced that the newspaper did not artificially create a "news story" to appropriate the copyrighted photos for commercial purposes.²⁸⁹ Rather, it genuinely sought to feed the public with the type of news it was eager to consume.

The defendant's good faith was evident.²⁹⁰ Those lawfully acquired photos had been properly attributed to their author. Evidence did not suggest that *El Vocero* had any intention of competing with Núñez or preventing him from exercising his right of first publication as the earlier works had already featured on TV shows. The plaintiff was not able to cast any doubt on the truthfulness of the defendant's allegation that the photos were published in the honest belief that anyone could freely circulate them after the fuss made about the photo shoot taken before Giraud's elevation to stardom.

The latter point implied also that Núñez's works were primarily directed at evidencing Giraud's suitability to act as a model without the photographer seeking hereby to express himself artistically. Right from the start, the photos were conceived as part of a modelling portfolio.

Harm to the market for professional photographs used for display in newspapers was not substantial, if there was any harm at all.²⁹¹ *El Vocero's* low-resolution reproduction on its front page was "simply an

284. *Id.*

285. *Id.* at 22.

286. *Id.*

287. *Id.* at 24.

288. *Id.*

289. *Id.* at 22–23.

290. *Id.* at 23.

291. *Id.* at 25.

inadequate substitute for an 8 ? x 10 ? glossy.”²⁹² And, in any event, Núñez did not seek any profit in the first place since he agreed to do a favor to Giraud’s agent and offered his services gratuitously.²⁹³ Market harm was only conceivable in the narrower market for photographs sold to newspapers for illustrating controversy.²⁹⁴ But Núñez had voluntarily dispensed with the potential economic benefits derivable from the copyrights in suit, which simply meant that no cognizable market harm could be recognized.²⁹⁵

The court rightfully proceeded to assess the proper standard of care toward the interests of other photographers who might enter into such transactions with news reporters. To do so, it sought to examine the impact that widespread conduct analogous to *El Vocero*’s practices would have on that narrowly defined market. Noting that “the market for professional photographs of models publishable only due to the controversy of the photograph itself is [surely] small or non-existent,” the opinion indicates that it would be difficult for copyright owners to win the fourth factor invoking this argument.²⁹⁶ Most likely, the reduction of the incentives package involved is not, in economic terms, so substantial as to outweigh the social benefit derived from secondary uses committed for news reporting purposes. With all fair use factors favoring the defendants, the court inevitably ruled that *El Vocero* had not engaged in copyright infringement.²⁹⁷

As already indicated, the delineation of a relevant market serves the purpose of determining the part of the incentives package that should be foregone in case the fair use defense is affirmed.²⁹⁸ Through this determination, a court can properly balance the social cost of lower incentives due to a decrease in the amount of internalized benefits against the social benefits accruing from the secondary use. It is a market definition directed at promoting the goals of copyright policy through an appropriate demarcation of the copyright’s scope. Another interesting feature of *Núñez v. El Vocero* is the illustration of the notion that the duty of care owed to the copyright owner might vary according to the situation of the particular plaintiff. In addition, Núñez’s fee-waiver can be perceived as a conscious failure to exercise care toward his own economic interests.

292. *Id.*

293. *Id.* at 25 n.3.

294. *Id.*

295. *Id.*

296. *Id.*

297. *Id.*

298. *See infra* section IV.D.

D. Private/Personal Uses

The exoneration of at least some private or personal uses from liability is vital for upholding the congressional mandate to promote the progress of science. Widespread knowledge dissemination does not simply amount to a function of the amount of authorial works that copyright protection incites but it equally depends upon the manner in which the consumer is able to interact with the produced works during the copyright term. Some degree of autonomy in consumption is necessary, for instance, so that the consumer is able to fully enjoy the musical works he or she has lawfully acquired and to absorb its cultural value efficiently.²⁹⁹

Imagine someone who is not allowed to make copies of his or her CDs and save them onto the memory of his or her personal stereo. Often, the full value of a cultural good is better appreciated through discourse and debate that occurs in the context of collective or shared consumption.³⁰⁰ Think, for instance, of a group of schoolmates passing to each other a movie of a type they particularly like with the aim of exchanging views and ideas about a given subject, or consider a group of individuals reflecting on the social issues raised in a documentary they have all watched together on DVD. As a matter of personal need in self-expression, consumers have an interest in being free to engage in transformative reproductions of an earlier work. Consider a kid or an adult drawing pictures of heroes featured in RPG games while combating each other, for instance. A young artist may systematically copy the work of contemporary painters at home in an attempt to learn from the masters. All the aforementioned uses promote both knowledge dissemination and incremental authorship. Some other uses, such as the whistling of a copyrighted tune in the bathroom, have a bearing on the individual's sphere of privacy.

It goes without saying that we need the activity levels of personal and private uses to be particularly high. But again, even those activities may occasionally prove to be hazardous to the integrity of the copyright system in some contexts, which makes the provision for specific standards of care necessary.

The starting point of the analysis is the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*³⁰¹ Ultimately, the dispute turned upon whether the distribution of an analog videocassette recorder rendered Sony indirectly liable for reproductions

299. Joseph P. Liu, *Copyright Law's Theory of the Consumer*, 44 B.C. L. REV. 397, 406–11 (2003) (arguing that copyright law should recognize the interests of consumers who are more active in dealing with a work of authorship).

300. Jessica Litman, *Lawful Personal Use*, 85 TEX. L. REV. 1871 (2007) (exploring the various types of personal uses and cautioning against suppression of consumer interests through over-enforcement of copyrights).

301. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

made by consumers who had created copies of TV programs to watch them at a time of their convenience in the privacy of their home. Sony's liability was contingent upon a finding that those copies were illegal with the ultimate question being whether such private copying amounted to fair use. A divided Supreme Court ruled that such private and non-commercial copying of TV programs for the purposes of time-shifting qualifies as fair use.³⁰² In the majority's view, private and non-commercial uses should be deemed presumptively fair, shifting the burden of proof to the copyright owner who should establish that the exemption of a specific use would undermine the incentives that copyright is supposed to secure by harming his or her markets.³⁰³

Sony was only able to provide speculative evidence of such harm.³⁰⁴ Copies made by consumers would normally be erased after the program had been watched and there was no culture of such videotapes being shared and copied among large groups of individuals. Hence, there was no palpable possibility of the private copies made by Betamax users substituting for Universal City Studio's works.³⁰⁵ In other words, there was no indication that time-shift copying of TV programs with the assistance of the Betamax device was likely to have any adverse effect on the plaintiff's markets.³⁰⁶

According to the Ninth Circuit, creating copies of MP3 files stored on a computer's hard drive to render one's own music portable constituted a "paradigmatic non-commercial personal use entirely consistent with the purposes of the Act."³⁰⁷ Rio, the first portable MP3 player, incorporated exactly that function, which made it possible for users to space-shift musical files they lawfully owned.³⁰⁸ The main issue in dispute was whether the distribution of Rio had violated the obligation to introduce anti-copying protection measures and comply with royalty payment requirements imposed by the Audio Home Recording Act (AHRA). Liability did not arise because Rio was not in fact a digital audio recording device to which the AHRA was applicable—it was not capable of reproducing a digital music recording indirectly from a transmission.³⁰⁹ Nevertheless, the court adamantly confirmed

302. *Id.* at 455–56.

303. *Id.* at 450–51.

304. *Id.* at 454.

305. *Id.* at 452–53.

306. Stan J. Liebowitz, *The Economics of Betamax: Unauthorized Copying of Advertising Based Television Broadcasts* (June 1985) (unpublished abstract) (on file with the NEBRASKA LAW REVIEW), <http://dx.doi.org/10.2139/ssrn.342741> [<https://perma.unl.edu/S9KJ-SXJL>] (highlighting the fact that the use of VCRs did not have a significant effect on the advertising revenues of the television broadcasters since those devices did not offer effective means for avoiding commercials).

307. *Recording Indus. Ass'n of Am. v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999).

308. *Id.* at 1079.

309. *Id.* at 1081.

the general principle that such personal uses are fair and copyright liability would not attach to the marketing of devices that simply facilitate them.

In the same spirit, the Ninth Circuit ruled that the sale of *Game Genie*, an add-on product that enabled users of the Nintendo Entertainment System (NES) to interfere with the game and effectuate a series of modifications to the video games, did not infringe Nintendo's copyrights.³¹⁰ By use of some code the gamer could, for instance, render his or her character invincible in battle.³¹¹ Assessing infringement, the court held that the private uses involved did not give rise to derivative works.³¹² This was because no permanent copies of the audiovisual displays created through *Game Genie* could be made.³¹³ In addition, the allegedly infringing product did not alter the data stored in the game cartridges but simply interfered with the flow of data between a given game cartridge and the central processing unit of NES.³¹⁴ Notwithstanding it being unnecessary for deciding the case, the court moved on to affirm that gamers were engaging in fair uses of the earlier works since what they were doing was analogous to "skipping portions of copyrighted works or viewing denouements before climaxes."³¹⁵

Regardless of how welfare-enhancing private and personal uses may be, the levels of those activities should not be excessive. Increased shared consumption, for instance, might indeed harm the markets for the original work. This is particularly evident in the case of P2P file-sharing.³¹⁶ Virtually limitless as it may be, the free consumptive use that takes place within file-sharing networks is a menace to the market for recorded music. Even if peer-to-peer file-sharing technology enhanced consumers' autonomy in consumption by allowing them to store their MP3 files in an alternative medium or facilitating the purchasing choices of consumers by enabling them to sample music uploaded by other users, the fact that the copy is made available to an infinite number of users is sufficient to render those otherwise desirable uses dangerous activities from an economic perspective. Indirect appropriability is not possible because the rights holder cannot identify those owners of lawful products who make copies to charge them a higher price, while the strategy of charging a skyrocketing price for the first copy would yield economic benefits lower than the profit-maximizing price since the price of the subsequent copies would drasti-

310. *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965 (9th Cir. 1992).

311. *Id.* at 967.

312. *Id.* at 967–69.

313. *Id.* at 968.

314. *Id.* at 967.

315. *Id.* at 971.

316. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1017 (9th Cir. 2001).

cally decrease within a very short period of time.³¹⁷ The Ninth Circuit upheld the lower court's findings that Napster harmed the plaintiff's traditional markets by reducing the sales of audio CDs among college students and usurping the potential market for digital downloads of its music.³¹⁸

Despite the difficulty in assessing the exact effect of a secondary use on the copyright owner's markets that characterizes those cases,³¹⁹ the possibility of an error can be minimized by having recourse to other methods for applying the law, such as analogy. Napster was clearly not analogous to Sony's VCR or Diamond's Rio MP3 player, which did not involve extensive distribution of copyrighted material to the public.³²⁰ Even if the possibility of error cannot be excluded, the Ninth Circuit imposed a reasonable rule-like standard of care to the defendants.

317. Benjamin Klein, Andres V. Lerner & Kevin M. Murphy, *The Economics of Copyright "Fair Use" in a Networked World*, 92 AM. ECON. REV. 205, 206–07 (2002).

318. *A&M Records*, 239 F.3d at 1016–17.

319. Liebowitz, *Back to the Future*, *supra* note 97. In another subsequent study, Liebowitz concluded that there is strong evidence of file-sharing harming the music industry. Stan J. Liebowitz, *File-Sharing: Creative Destruction or Just Plain Destruction?*, 49 J.L. & ECON. 1 (2006); *see also* Thomas J. Miceli & Richard P. Adelstein, *An Economic Model of Fair Use*, 18 INFO. ECON. & POL'Y 359 (2006) (setting as the basis of their analysis the assumption that some consumers would not have been able to purchase the original if copying was impossible). Miceli and Adelstein suggest that fair use should allow access to those users, arguing that this would maximize social welfare because the secondary use benefits a group of consumers without decreasing the welfare of copyright owners. Where a part of the consuming public has the luxury of choosing between the options of purchasing the original or obtaining a copy, courts would have to balance the potential losses and gains in welfare that the stakeholders involved have to experience as a result of the secondary use. Apparently, it would require a fairly good amount of accurate market information, which would not always be readily available, to effectuate all those trade-offs. Some of the conflicting empirical research that has been carried out examining the effect of file-sharing on the music industry is summarized by HAROLD WINTER, *ISSUES IN LAW AND ECONOMICS* 46–58 (2017) (arguing that while evidence does suggest some revenue losses for the rights holders, copyright protection is not necessary because the remaining rents are enough to generate incentives to produce creative works). To accept that argument, though, would be tantamount to adhering to the notion that IP rights function as incentive generating mechanisms that induce creativity by simply allowing the recoupment of production costs and some reasonable profit rather than by securing a profit-maximizing opportunity. *See* Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1064–65 (2005) (arguing that IP rights make economic sense only to the extent necessary to enable creators to cover their average fixed costs plus a reasonable investment return). In his review of the relevant economic studies, Liebowitz concludes that internet piracy has substantially harmed both the music and the movie industry. *See* Stan J. Liebowitz, *The Impacts of Internet Piracy*, in *HANDBOOK ON THE ECONOMICS OF COPYRIGHT – A GUIDE FOR STUDENTS AND TEACHERS* 225 (Richard Watt ed., 2014).

320. *A&M Records*, 239 F.3d at 1019.

The argument based on analogy protects the reliance investments of authors. It also goes in tandem with the general principle of securing incentives for creative activity by granting evidentiary easements to the copyright owner with respect to a properly defined subject matter of property to provide authors with meaningful protection. Furthermore, analogy has the potential of minimizing the possibility of error and creating principles, which despite their possible shortcomings, at least allow for some increased efficiencies in the allocation of resources by prompting stakeholders to coordinate their behavior according to some legal rule-like standard. Most importantly, a light-handed application of the fair use defense at the early stage where controversy arises about the legality of a specific type of dealing with earlier works is likely to interfere with the formation of markets for that secondary use.³²¹ The cumulative precedential effect of *Sony* and *Napster* gives rise to a legal landscape where both the interests of copyright owners and the interests of the public in private/personal dealings with earlier works find consideration.

E. Appropriation Art

Many works of authorship would eventually morph into short-hands for a range of meanings after having become the subject matter of social discourse.³²² By exempting the use of earlier works as ciphers for one's own expressive purposes from copyright liability, the fair use doctrine secures the unhindered participation of third parties in sociocultural affairs and promotes a social interaction that is abundant in colorful means of expression.

In *Blanch v. Koons*,³²³ a fashion photographer sought to assert a copyright claim in one of her works titled the *Silk Sandals*. The photograph depicted the pair of a female's lower legs and feet wearing sandals as they were resting crossed at the lap of a male model in an airplane cabin.³²⁴ Koons, a pop artist, used the depiction of those feet and shoes as one of the collage elements contained in his oil painting *Niagara*.³²⁵ As the artist himself explained in an affidavit that he submitted to the district court, the reason why he decided to juxtapose women's legs against a backdrop of food and landscape was because he intended to "comment on the ways in which some of our most basic appetites – for food, play, and sex – are mediated by popular images."³²⁶ By re-contextualizing those specific fragments of the ear-

321. MERGES, *supra* note 68, at 250–52.

322. Michael Spence, *Justifying Copyright*, in DEAR IMAGES: ART, COPYRIGHT AND CULTURE 394–95 (Karsten Schubert & Daniel McClean eds., 2002).

323. *Blanch v. Koons*, 467 F.3d 244 (2d Cir. 2006).

324. *Id.* at 247.

325. *Id.*

326. *Id.* at 247.

lier work, Koons tried to “compel the viewer to break out of the conventional way of experiencing a particular appetite as mediated by mass media.”³²⁷

Satisfied that the defendant had afforded a cogent explanation for using copyrighted material, the Second Circuit noted that Koons’s collage was driven by an expressive purpose different to the one that incited the creation of the work from which the artist had borrowed some creative parts. Hence, the junior use was deemed transformative.³²⁸ As regards the commercial nature of the defendant’s use, who created the work under commission for exhibition in a German art gallery, the court held that the commercialism of the use by the secondary user was of less significance given that *Niagara* was a “substantially transformative” work.³²⁹ Activities such as comment or criticism are not incompatible with commercial profit. Commercialism would normally allow those activities to persist and flourish even when the copyright owner and third parties stand up and are counted against the use of an earlier work as fodder for social commentary. Emphasis was further placed on the public interest and in particular, the social value generated by the public exhibition of art.³³⁰

Hence, the analysis of the first factor tilted the assessment toward the affirmation of fair use.³³¹ Similarly, the court regarded it as immaterial that Koons had drawn upon a copyrighted work of a creative nature in light of the transformative character of his own work.³³² Furthermore, both the quantity and value of the materials used were found to be reasonable in relation to the purpose of the copying.³³³

Reviewing the fair use analysis of the Second Circuit, it appears that using an earlier work as an expressive springboard in social commentary constitutes an activity that should not be suppressed by copyright enforcement and therefore must be subjected to a negligence standard. While the secondary user does not have to exercise care by generally avoiding the use of creative material, he or she must refrain from copying more than what is necessary to promote his or her expressive goals.

Getting to the fourth factor, the Second Circuit found that it does not favor the copyright owner since Blanch had never licensed any of her photographs for use in graphic or other visual arts and no other harm to her career plans or to the value of *Silk Sandals* could be fore-

327. *Id.*

328. *Id.* at 252–53.

329. *Id.* at 254.

330. *Id.*

331. *Id.* at 256.

332. *Id.* at 256–57.

333. *Id.* at 257–58.

boded.³³⁴ Generally speaking, third parties owe a duty of care not to usurp the demand for the original work, including markets for derivative uses. However, the opinion of the court seems to suggest that appropriation artists do not encroach upon the copyright owner's markets since the respective works normally target different audiences and are sold in different markets. This indicates further that the assessment of the fourth factor only considered the plaintiff's traditional markets. As a result thereof, no proper balancing took place between the rent-seeking interests of the copyright owner and the social benefits associated with the secondary use.

Blanch v. Koons was decided during the era where the transformative character of the secondary use was given prominence over the other statutory factors.³³⁵ Case law and commentary of that time suggested that the transformative nature of the junior use alone should, in the general run of things, exonerate the appropriation artists from liability without much further analysis.

Yet, excessive levels of creative activities in the field of appropriation art may indeed cause social losses by undermining authors' incentives to produce works of authorship if they overabundantly interfere with actual as well as potential licensing markets of the copyright owner or significantly reduce the value of the earlier work. William Landes has referred to a settled dispute between the photojournalist Henri Dauman and Andy Warhol's estate as an example thereof.³³⁶ The photographer is being held in high esteem for his iconic celebrity portraits and many other photos, including a picture that captured the mournful expression of Jacqueline Kennedy on the day of her husband's funeral. Seeking to document the historical events of his era in his unique art, the famous pop artist cropped that photo, uprooting a part focusing on Jackie's face, which he then transposed onto canvas, creating one of his four emblematic "silkscreen portraits" of her.

According to Landes, the fact that the estate reproduced Andy Warhol's silkscreen image on various merchandising products such as calendars and posters should tilt not only the assessment of the fourth factor but also the complete fair use analysis in favor of the plaintiff since the defendant had obviously tapped into licensing markets cus-

334. *Id.* at 258.

335. See generally Jeannine M. Marques, *Fair Use in the 21st Century: Bill Graham and Blanch v. Koons*, 22 *BERKELEY TECH. L.J.* 331 (2007) (linking the rise in significance that transformativeness had gained in the meantime as a determinant of the fair use calculus to copyright's ultimate goal of promoting knowledge and the arts); Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 *LEWIS & CLARK L. REV.* 715 (2011) (arguing that *Campbell* signified the ascendancy of the "transformative use paradigm," which overshadowed the "market-centered paradigm" represented by *Harper & Row* and other preceding cases).

336. William M. Landes, *Copyright, Borrowed Images, and Appropriation Art: An Economic Approach*, 9 *GEO. MASON L. REV.* 1 (2000).

tomarily exploited by photographers. Furthermore, he argues, under the said circumstances neither is the copyright owner inclined to prohibit the secondary use nor does the appropriation artist lose incentives to generate works of authorship, being mindful of how high the market values his creations. No significant transaction costs or other impediments are present which could prevent the parties from reaching a mutually beneficial bargain. Things would have been different, as Landes suggests, if the estate had transformed Dauman's photo only to create a single visual work or to a limited-edition series of those "silkscreen prints." In such a case, the cutback of the copyright owner's incentives package resulting from the loss of a licensing opportunity is offset by the social value that appropriation art engenders, be it as a vehicle for social commentary or as a form of art in itself.

The example shows that no matter how valuable their contribution to social discourse might be, appropriation artists still owe some duty of care to copyright owners that has to be specified by the courts. Hence, the transformative character of the secondary use should neither be dispositive nor awarded prominence in the sense of preempting a full-blown fair use analysis or inviting a manipulation of its factors. Courts should fastidiously analyze the remaining factors including, of course, the market effects of the secondary use.

Quite often, it is actually the plaintiff who fails to adduce adequate information about the licensing of his or her work as the case was in *Seltzer v. Green Day*.³³⁷ In that case, the defendant punk rock band used in one of the backdrop videos they projected during their stage shows a copy of plaintiff's *Scream Icon*, a drawing which had been reproduced on posters and stickers hanging throughout the neighborhoods of Los Angeles by way of street art.³³⁸

While the exact message conveyed by Dereck Seltzer's work could not be readily extrapolated, the Ninth Circuit accepted that the defendants had indeed added their own expressive content since the song, in connection to which the earlier work had been used, was meant to cast aspersions on the "hypocrisy of some religious people who preach one thing but act otherwise" and denounce the "violence that is done in the name of religion."³³⁹ There was no indication whatsoever that the plaintiff's work somehow adverted to the same theme. Rather, the *Scream Icon* came across as a "directionless anguished screaming face."³⁴⁰ Thus, the court found that the junior use was transformative.³⁴¹

337. 725 F.3d 1170 (9th Cir. 2013).

338. *Id.* at 1174.

339. *Id.*

340. *Id.* at 1177.

341. *Id.* at 1176.

Reviewing the analysis of the court, it appears that the latent economic rationale for accepting the fair use defense in the case at hand lies in the fact that the defendant has exercised due care toward the legitimate interests of the copyright owner. First of all, the secondary use was only incidentally commercial since the band did not use the earlier work to promote its concerts, CDs, or other merchandise. *Scream Icon* was used in a four-minute video running in the background while the song *East Jesus Nowhere* was performed. A large, red “spray-painted” cross was superimposed on the middle of the screaming face and dominated the video clip’s frame. The action takes place at an accelerated pace in the surroundings of a brick alleyway covered in graffiti depicting three defaced images of Jesus Christ. In the course of several days, many other cognoscente of the same art would drop by to put their own touch to the scene. Despite those changes made to the drawing by Staub, the video-designer, the earlier work was identifiable. Therefore, the *Scream Icon* was primarily resorted to as an expressive shortcut with any commercial aspects associated with its use being simply incidental.³⁴²

Obviously, Green Day’s quasi-commercial use did not substitute for the original, which was primarily envisaged by its creator as a piece of street art some time ago.³⁴³ Since no traditional markets such as those related to general merchandise products were harmed, and the plaintiff did not provide any evidence of likelihood that he would develop any further markets for his work, the defendants could avail themselves of the fair use defense to escape liability.³⁴⁴

The court did not examine whether “reasonable or potential markets” were harmed. Given that the copyright incentives package seeks to internalize benefits that would allow authors to capitalize upon the full market value of their works, a detailed consideration of the copyright owner’s rent-seeking opportunities should form part of every fair use assessment. Of course, even if the copyright owner is successful in showing that the analysis of the fourth factor favors his or her position to a larger or lesser degree, this does not really mean that he or she is guaranteed an easy victory on the fair use argument. It rather means that any harm sustained with respect to those markets should be balanced against the contribution of the secondary use to social welfare. In *Seltzer*, for instance, even if we assume that the photographer should obtain benefits from an unforeseen exploitation method for his work, any harm would be minimal since the drawing was used only for a very short video during the tour of a music group.

The important intuition emanating from the analysis of the Ninth Circuit in this case is that the transformative nature of the earlier

342. *Id.* at 1175–78.

343. *Id.* at 1179.

344. *Id.*

work is not dispositive and that courts should throw themselves into a careful balance of the individual and collective equities stumbling across each other in a given copyright dispute.³⁴⁵ No matter how transformative and socially desirable their activities are, appropriation artists do owe a duty of care to copyright owners.³⁴⁶ Such duty may also arise with respect to the value of the earlier work.

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345. In my view, the arguments brought forward by Merges, *supra* note 243, with respect to parodic secondary uses, apply *mutatis mutandis* to the case of appropriation art. Cf. John Carlin, *Culture Ventures: Artistic Appropriation and Intellectual Property Law*, 13 COLUM.-VLA J.L. & ARTS 103 (1988); Brittani Everson, *The Narrowest and Most Obvious Limits: Applying Fair Use to Appropriation Art Economically Using a Royalty System*, 63 CATH. U. L. REV. 729 (2014) (suggesting that the institution of a royalty system would do justice to the legitimate interests of both copyright owners and appropriation artists); Marci A. Hamilton, *Appropriation Art and the Imminent Decline in Authorial Control over Copyrighted Works*, 42 J. COPYRIGHT SOC'Y U.S.A. 93 (1994) (advocating the introduction of a liability rule); John Carl Zwisler, *(Mis)appropriation Art: Transformation and Attribution in the Fair Use Doctrine*, 15 CHI.-KENT J. INTELL. PROP. 163, 190–92 (2016) (arguing that the emphasis should be placed on the fourth factor, but the plaintiff should be required to establish the likelihood of entering the market where the secondary use has taken place).
346. One of the challenges that appropriation art poses to the copyright system is the problem of weeding out those cases where the defendant pretentiously alleges that the secondary use conveys some sort of social commentary to justify an attempt to gain commercial profit from an earlier work. In *Rogers v. Koons*, the same appropriation artist was sued for copyright infringement for creating a sculpture entitled “String of Puppies” based on a black-and-white photo made by the plaintiff, which depicted a man and woman seated on a bench, holding eight puppies in their arms. 960 F.2d 301, 304 (2d Cir. 1992). The later work emerged after Koons directed artisans to copy many details from the original work and effectuate perceptible changes such as adding flowers to the heads of the models and exaggerating the puppies’ noses. *Id.* at 304–05. The defendant’s fair use defense was rejected with the argument that the secondary use fell short of being a parody, meaning that, in the view of the court, the claim to a transformative contribution benefitting the public was weak. *Id.* at 308–12. The court was actually concerned with the fair use defense ending up having no practical limits if defendants like Koons were able to argue that they were “acting within an artistic tradition of commenting upon the commonplace.” *Id.* at 310. The decision has been subjected to criticism because it failed to consider that there is social benefit in using earlier works as fodder for social commentary even if the later works are not parodies in the legal sense. See E. Kenly Ames, *Beyond Rogers v. Koons: A Fair Use Standard for Appropriation*, 93 COLUM. L. REV. 1473, 1506 (1993); Roxana Badin, *An Appropriate(d) Place in Transformative Value: Appropriation Art’s Exclusion from Campbell v. Acuff-Rose Music, Inc.*, 60 BROOK. L. REV. 1653 (1995); Lynne A. Greenberg, *The Art of Appropriation: Puppies, Piracy, and Post-Modernism*, 11 CARDOZO ARTS & ENT. L.J. 1, 29–30 (1992). What is probably there to take from *Rogers* is the notion that in the absence of a palpable social benefit, the first factor, and also the overall fair use analysis, would tend to favor the plaintiff. The Second Circuit was probably not really convinced by the artist’s claims that he intended his work to suggest that “the mass production of commodities and media images has caused a deterioration in the quality of society” and to critically comment upon the earlier work as well as “the political and economic system that created it.” *Rogers*, 960 F.2d at 309. Arguably, the social bene-

In *Kienitz v. Sconnie Nation LLC*,³⁴⁷ the defendant, an apparel manufacturer, isolated the face of the mayor of Madison, Wisconsin, Paul R. Soglin, from a photo taken by his photographer and re-contextualized it as an element featured on t-shirts and tank tops that were eventually sold at the local Mifflin Street Block Party.³⁴⁸ Sconnie Nation's clothing featured the mayor's face as separated out of Michael Kienitz's photograph, albeit in a lime green color surrounded by the phrase "Sorry for partying" written in multi-color script.³⁴⁹ The defendant's use was deemed transformative in light of the political criticism it exerted on the previous initiatives undertaken by the municipal government official to shut down the annual event.³⁵⁰ Importantly, the Seventh Circuit rejected the notion of transformativeness being commensurate with the touchstone of the fair use analysis.³⁵¹ Again, the plaintiff did not give a shot to convince the court that the defendant turned some plans of his to license the use of his photograph for apparel upside-down. Nevertheless, Judge Easterbook, on his own initiative, delved into the arguments that the photographer himself could have put forward.³⁵²

At first, he called into question the necessity of using Michael Kienitz's photo for attaining its expressive purposes, pondering over the reason behind such a choice when various other non-copyrighted

fit generated by the secondary use was not substantial or seemed to have been overshadowed by the defendant's commercial motivation. Hence, it is not surprising for the court to have argued that the defendant's alleged creative intent could not play the decisive role in assessing the transformative character of an appropriation artist's work. *Id.* Apart from that, Koons appropriated, according to the court, an amount of original expression that was disproportional to his expressive purposes. *Id.* at 310. Last but not least, the appropriation artist was deemed to have acted in bad faith because he had removed the copyright notice from plaintiff's photo before handing it over to the artisans with instructions on how to create the sculpture at issue. *Id.* at 309; *Blanch v. Koons*, 467 F.3d 244, 262 (2d Cir. 2006) (Katzmann, J., concurring); *see also* Landes, *supra* note 336, at 21–22 (noting that where the appropriation artist creates more copies from a single source, the case against fair use becomes stronger).

347. *Kienitz v. Sconnie Nation LLC*, 766 F.3d 756 (7th Cir. 2014).

348. *Id.* at 757.

349. *Id.*

350. *Id.* at 758.

351. *Id.* As explained by the Seventh Circuit,

The Second Circuit has run with the suggestion and concluded that "transformative use" is enough to bring a modified copy within the scope of § 107. *Cariou* applied this to an example of "appropriation art," in which some of the supposed value comes from the very fact that the work was created by someone else. We're skeptical of *Cariou's* approach, because asking exclusively whether something is "transformative" not only replaces the list in § 107 but also could override 17 U.S.C. § 106(2), which protects derivative works.

Id. (internal citation omitted) (citing *Cariou v. Prince*, 714 F.3d 694, 706 (2d Cir. 2013)).

352. *Id.* at 759.

alternatives, including snapshots, that the defendants could have taken were available and capable of serving the same end.³⁵³ Whether the costs of precaution, that is the limitation of the freedom to choose befitting medium for the purposes of engaging in social commentary, outweighs the cost of appropriating the copyright owner's creative efforts is an issue for the court to examine in light of the specific set of facts that it has to evaluate. For instance, there might be a necessity to use the copyrighted work involved in *Kienitz* according to the said calculus since the relevant photo was taken at Soglin's inauguration. It may well be that some photos carry with them a certain symbolism that makes them particularly apt for adaptation in later works taking aim at exercising valuable social criticism.

Apart from an assessment of necessity, Judge Easterbrook sketched the trajectory for devising theories of harm that copyright owners could invoke against appropriation artists with respect to the fourth factor. Accordingly, Judge Easterbrook referred to the possibility of celebrities not willing to work with Michael Kienitz for fear of the photographs ordered being used against them subsequently because of their supreme quality.³⁵⁴

Fair use case law is leaving behind presumptions that turn upon the commercial or transformative character of the use to focus on the promulgation of socially optimal negligence standards. In effect, the judge calls for the formulation of care duties owed by appropriation artists to copyright owners.

However, this should not be taken to suggest that the expansion of the transformiveness concept to include uses that simply contribute different aesthetics or simply alter the earlier work without adding any ascertainable further meaning is wrong. Appropriation art is an acclaimed form of artistic expression that should not be stymied by overly far-reaching copyright claims. Since the courts have to implement negligence standards to keep the activity levels of appropriation artists at an optimal level, they first have to recognize appropriation art as an activity that should be subjected to a negligence standard in the first place. Andy Warhol's "silkscreen portraits" of JFK's widow, for instance, were rather aimed at enhancing the socially acknowledged features of that public persona with no intention whatsoever to either exercise criticism or to shed light on some other perceived aspects of her personality.

Another example highlighting the function of the first factor at the stage where courts determine the type of socially desirable activity before seeking to induce optimal levels of that activity through an appropriate legal standard is the decision of the Second Circuit in the

353. *Id.*

354. *Id.*

case of *Cariou v. Prince*.³⁵⁵ This was another case about a photographer taking umbrage at his work igniting the inspiration of an appropriation artist.

Back in 2000, the French photographer Patrick Cariou published a photography book comprising many black and white photos of Rastafarians living in isolated mountainous areas of Jamaica.³⁵⁶ The book's title *Yes Rasta* pertains to a personal greeting used by the members of those communities. Cariou's artistic endeavor was to capture the essence of that culture. The author managed to make friends with them and gain enough of their trust to be allowed to carry out his project within six years while living with them.³⁵⁷ Richard Prince used many of those photos while promoting his own art. One characteristic instance concerned alterations made to a picture depicting a Rastafarian man in the wild. The appropriation artist turned him into a player of electric guitar and placed splotches of blue paint atop his eyes.³⁵⁸ This work was part of a collection titled "Canal Zone."³⁵⁹

To appreciate the nature of the defendant's creative efforts, the opinion resorted to a definition provided by the Tate Gallery according to which appropriation art entails "the more or less direct taking over into a work of art a real object or even an existing work."³⁶⁰ In the view of the Second Circuit, the secondary use was transformative because it manifested an entirely different aesthetic from the earlier work.³⁶¹ In contrast to the classic portrait and landscape photography found in *Yes Rasta*, Prince's "crude and jarring" works are "hectic and provocative."³⁶² Compared to the earlier work, Prince's composition, presentation, scale, color palette, and media were deemed by the court to be different and new, giving rise to a clearly distinguishable expressive disposition.³⁶³

355. *Cariou v. Prince*, 714 F.3d 694 (2d Cir. 2013).

356. *Id.* at 698.

357. *Id.* at 698–99.

358. *Id.* at 701.

359. *Id.* at 699–700.

360. *Id.* at 699.

361. *Id.* at 707–08.

362. *Id.* at 706.

363. Importantly, the court concluded that Prince's work was transformative, despite him conceding that he did not really have any message to convey through his work. *Id.* at 707. What mattered instead was how the specific work appeared to the reasonable observer. *Id.* Focusing on public perception is a proper approach to ascertain the public benefit of the secondary use. Artists often refrain from providing explanations about the message conveyed by their works. They may not feel obliged to. Alternatively, their artistic intention might have been to puzzle the receivers of the communication and leave them with their thoughts regarding some issue. In other instances, the interpretation of a work might be highly contextual or entail a significant amount of subjectivity. On these issues, see generally Laura A. Heymann, *Everything Is Transformative: Fair Use and Reader Response*, 31 COLUM. J.L. & ARTS 445, 455 (2008) (relying on literary theory for

Hence, the expansion of the transformativeness criterion to encompass secondary uses that neither offer a critical review of the earlier work nor use it as fodder for social commentary, but simply appropriate it creatively by adding new expression or aesthetics from the perspective of the consumer, is meant to create leeway for the courts to determine types of activity, such as appropriation art, that are socially desirable and therefore principally permissible, even though the frequency and the intensity of those activities must be confined to an optimal level. In this respect, the Second Circuit took the correct approach in *Cariou v. Prince*.

Where one could argue the court was wrong is at setting the requisite level of care for the defendant's actions. It did so by essentially arguing that the transformative character of the secondary use upstages not only commercialism but also the highly creative nature of the published copyrighted material that has been appropriated.³⁶⁴ The court also argued that the fourth factor favored Prince because Cariou had "not actively marketed his work or sold work for significant sums, and nothing in the record suggests that anyone will not now purchase Cariou's work, or derivative non-transformative works (whether Cariou's own or licensed by him) as a result of the market space that Prince's work has taken up."³⁶⁵

There is nothing to suggest that the level of activities related to appropriation art would be suboptimal if photographers were entitled to control the uses of their works by appropriation artists under some circumstances, especially when the profits springing from those art markets are soaring. Prince sold eight of his Cariou-inspired artworks for \$10,480,000. He also received works of painter Larry Rivers and

the proposition that transformativeness rests on the meaning ascribed to a subsequent copy of an earlier work by the readers). In this sense, Heymann argues, even an original work fixed into a tangible medium of expression has a transformative character because it imperfectly represents some intangible ideal object or notion in the author's mind. *Id.* at 457–65. Heymann argues that this notion of consumer perception constituting a determinant of transformativeness is in line with the Supreme Court's definition of transformativeness in *Campbell*, where the crucial aspect was held to be whether the secondary use "adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message." *Id.* at 447 (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)). Heymann further examines the possibility of there existing various interpretative communities with the result of the same secondary use being perceived differently by different people. *Id.* at 455–56. The latter is an aspect that needs to be considered when balancing the equities involved in a given dispute. *Id.*; see also Jonathan Francis, *On Appropriation: Cariou v. Prince and Measuring Contextual Transformation in Fair Use*, 29 BERKELEY TECH. L.J. 681, 684 (2014). *Cariou* is illustrative of the notion that even minimal physical interferences with an earlier work may well give rise to a transformative use in the copyright sense.

364. *Cariou*, 714 F.3d at 708.

365. *Id.* at 709.

sculptor Richard Serra in exchange for some other pieces of the Canal Zone series. Being required to hand over a slice of that pie to Cariou would not undermine his incentives to keep on trying to change other artists' works "into something that's completely different"³⁶⁶ as he himself described his art.

The fact that Cariou himself would not have liked his documentation of Rastafarian culture to look like pop art at all does not change anything in this analysis. A photography book like *Yes Rasta* made its author a trifling sum of \$8,000. In his position, another photographer would have wholeheartedly negotiated a license agreement.³⁶⁷ And even if there would always be artists like Cariou who would firmly hold the line against such a prospect, there are a plethora of published works available for an appropriation artist to draw upon. To counter that argument, the defendant should be called upon to provide a justification for getting to copy the specific earlier work to promote his artistic purposes. For the assessment of the fourth factor this should mean that appropriation artists owe a duty of care not to usurp markets that did not actually incite the production of the earlier work in the sense that they were not envisaged at the time that the work was created or at some later point.

It turns out that the commercial nature of the secondary use is the most significant parameter for regulating the level of care that the appropriation artist must exercise. Intense commercialism, either in terms of the quantity of lucrative merchandise placed on the market or with regard to the overindulgent monopoly profits that are realizable in the market where the transformative work is sold, would indicate that the defendant has encroached upon benefits in which the author of the earlier work should share. Ideally, this standard of care would induce synergies and cross-fertilization between the different forms of art with photographers actively seeking to create copyrightable material that appropriation artists might wish to use as input for their own works. Where the commercial nature of the secondary use is incidental, as was the case in *Seltzer v. Green Day*, or economically insubstantial, the fair use analysis may favor the defendant. In the latter case, the law would cater for optimal activity levels by ensuring that less prominent appropriation artists are endowed with the freedom of action that is requisite for practicing their art.³⁶⁸

366. *Id.* at 699.

367. Appropriation art may well give rise to instances where the value of the later work greatly exceeds the price for which the copyright owner would be willing to tolerate an otherwise undesirable dealing by an appropriation artist. Cf. Gordon, *Excuse and Justification in the Law of Fair Use*, *supra* note 126, at 181.

368. A more balanced approach under which appropriation artists may be held liable for copyright infringement despite the transformative nature of their contribution in cases where a licensing agreement seems reasonable would, apart from maximizing social welfare, correspond with the fundamental function of the fair

Last but not least, appropriation artists do not have to comply with duties of care that would involve the avoidance of suppressing or even destroying the market for the original work or its potential derivatives. Whether the secondary use renders the earlier work less desirable, as a result of the criticism that has been subjected to or due to its association with the expressive purposes of the appropriation artist, is inconsequential to the outcome of the fair use analysis.

F. Uses Facilitating the Access to Information

Thanks to our technological advances, a vast amount of information is now publicly available. The Internet, in particular, offers access to information stored in countless globally interconnected networks. Similarly, the number of books being published has increased tremendously over the last decades. Without the possibility of effectively navigating the plethora of available information, that public good cannot be fully enjoyed and can even turn into a white elephant. Attempts to create index and search tools would normally require some sort of dealing with copyrighted works. Copyright law should make sure that those activities are carried out at sufficiently high levels in order to increase the utility derived from the public good without at the same time disproportionately reducing the benefits to which the copyright owners are entitled by virtue of their exclusive right.

Starting from *Kelly v. Arriba Soft Corp.*,³⁶⁹ the circuit courts have rendered sound judgments that have clarified the law and set proper standards of care. The defendant's internet search engine displayed its results in the form of picture thumbnails instead of text.³⁷⁰ Once a search had been initiated, a computer program would crawl the web gathering relevant images, which were then temporarily saved in Arriba's server before being turned into thumbnails.³⁷¹ Double-clicking on a thumbnail would lead the user to another webpage, the "Images Attributes" page, where the original full-sized image featured was an

use doctrine, which has been to allow for expansions of copyright protection exactly because it creates counterbalancing limitations to the exclusive right at the same time. Its very existence as a safety valve encourages the courts to consider additional benefits as internalized to the benefit of the copyright owner by virtue of his or her exclusive right, if the balancing of the various equities involved suggests that this makes economic sense. Scholars have traced this pattern back to the early developments of the doctrine. See Matthew Sag, *God in the Machine: A New Structural Analysis of Copyright's Fair Use Doctrine*, 11 MICH. TELECOMM. & TECH. L. REV. 381, 414 (2005). The more courts explore the transformative nature of secondary uses, the more they are able to appreciate the magnitude of the social benefit resulting from such dealings with earlier works and become able to balance it with the economic interests of copyright owners.

369. *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002).

370. *Id.* at 938.

371. *Id.*

inline link.³⁷² On the same page the user would find some technical information about the photo and a link to the originating website while being exposed to paid advertisements.³⁷³ Later on, Arriba changed the configuration of the results page.³⁷⁴ Each thumbnail was accompanied by two separate links. The “details link” produced a webpage similar to the “Images Attributes” page, the only difference being that the former displayed a thumbnail and not the original image.³⁷⁵ When clicked upon, the “source link” would cause two windows to emerge. Similar to the “Image Attributes” page, the original full-sized image was imported directly from the originating image into the first window (inline linking).³⁷⁶ The second window simply displayed the webpage where the image was found by the web crawler (framing).³⁷⁷

Photographer Leslie A. Kelly filed suit for copyright infringement after finding out that a couple of his images of the American West had been reproduced and displayed by Arriba.³⁷⁸

In its fair use analysis, the Ninth Circuit had to ascertain first whether the use of thumbnails in the defendant’s search engine was fair.³⁷⁹ Addressing the first factor, the court found the secondary use to be transformative because it served a function that was different from the aesthetic purpose of the original works since those thumbnails “benefit the public by enhancing information gathering techniques on the internet.”³⁸⁰ The commercial character of Arriba’s use was deemed “more incidental and less exploitative in nature than more traditional types of commercial use.”³⁸¹ Arriba was not making profit from the sale of the images themselves but from paid advertising attracted by its internet search services.³⁸² Commercialism was simply not prevalent enough to trump the transformative nature of the defendant’s use. Accordingly, the first factor was held to tilt the assessment in Arriba’s favor.³⁸³ Although the court gives us the impression of intending to declare a winner for each assessment of the individual factors, it seems to have correlated the first and the fourth factor by observing that the thumbnails could not possibly supplant the original works due to the lack of an illustrative or expressive pur-

372. *Id.*

373. *Id.*

374. *Id.* at 939.

375. *Id.*

376. *Id.*

377. *Id.* at 938–39.

378. *Id.* at 938.

379. *Id.* at 939.

380. *Id.* at 942.

381. *Id.* at 940.

382. *Id.*

383. *Id.* at 942.

pose.³⁸⁴ In that regard, the court adopted a holistic view by duly considering the public interest in securing incentives for creativity and the need to allow room for welfare-enhancing dealings with the earlier works.

Despite the creative nature of the earlier works, the second factor weighted only slightly in favor of Kelly because his pictures were published, which meant that the author had already been able to exercise the strong right of first publication.³⁸⁵

In turn, the court concluded that the third factor was neutral.³⁸⁶ Arriba may have copied entire expressive works, but nevertheless, the amount and substantiality of the appropriated material was, in the view of the court, proportional to the legitimate purpose of facilitating internet browsing by improving the usefulness of a search engine. Even though the court correlated the third with the first factor, essentially implying that copying was not excessive,³⁸⁷ it did not directly examine whether the respective activity levels were excessive in light of the possible impact of the secondary use on plaintiff's markets and the value of his copyrights. Instead, the court concluded its assessment of the third factor, finding that it did not favor any of the parties to the dispute.³⁸⁸

To assess the fourth factor, the opinion first identifies the copyright owner's actual and potential markets.³⁸⁹ Kelly's photos could bring custom to his website where advertising space along with books and travel packages were being sold.³⁹⁰ Potential licensees included other websites and stock photo databases. The defendant's thumbnails could not harm those markets or depreciate the value of the underlying copyrights because they could not possibly serve as substitutes for the original images. Any attempt to create larger images from thumbnails of lower-resolution would bring along grave reductions in quality, which would render the product unmarketable.³⁹¹ Creating low-resolution thumbnails actually constitutes a means to exercise care toward the legitimate interests of the copyright owner. Interestingly, the Ninth Circuit's opinion considered this aspect under the first factor as well without technically correlating the two factors. "Having considered the four fair use factors" the court found that "two weigh in favor of Arriba, one is neutral and one weighs slightly in favor of Kelly" and concluded that "Arriba's use of

384. *Id.* at 941–42.

385. *Id.* at 943.

386. *Id.*

387. *Id.*

388. *Id.*

389. *Id.* at 943–44.

390. *Id.*

391. *Id.*

Kelly's images as thumbnails in its search engine is a fair use."³⁹² Even though the fair use analysis did not result from a proper correlation of the factors, the court nevertheless determined the proper standard of care to induce the optimal levels of activity.

On the other hand, those inline-linking and framing practices of Arriba—causing the search engine to display full-sized images—did not pass muster with the fair use inquiry as they were obviously usurping the photographer's markets.³⁹³ Here, the court correlated the first with the fourth factor, reiterating the principle that the less transformative the new use is the more likely a finding of market harm becomes.³⁹⁴ This time the third factor clearly favored Kelly because copying took place to promote the illegitimate purpose of providing users with access to full-sized copyrighted images within the environment of Arriba's websites.³⁹⁵ While assessing the first factor, the court had already noted that these particular secondary uses had a weaker claim to the fair use defense as they did not offer any social benefit that was comparable to the informational value accruing from making thumbnails of copyrighted pictures available through a search engine.³⁹⁶ Again, the conclusion of the court was formulated as an announcement of the number of factors favoring each party.³⁹⁷ None of the four factors favored Arriba with respect to the display of full-sized images. It appears from this case that the exercise of due care depends largely on ensuring that the images featured in a search results page do not function as substitutes for the original works.³⁹⁸

The Ninth Circuit had the opportunity to elaborate upon its analysis in *Perfect 10, Inc. v. Amazon.com, Inc.*,³⁹⁹ which dealt with similar practices. Google, which was also a party to this dispute, was allegedly infringing the plaintiff's copyrights in the photographs of nude models through its search service for image content called "Google Image Search."⁴⁰⁰ On this occasion, Google was able to avoid direct liability

392. *Id.* at 944.

393. *Id.* at 948. The court's separate analysis of the technological services involved is indicative of a willingness to apply appropriate copyright limitations to each individual innovative aspect of a service bundle. Khio D. Dang, *Kelly v. Arriba Soft Corp.: Copyright Limitations on Technological Innovation on the Internet*, 18 SANTA CLARA COMPUTER & HIGH TECH. L.J. 389, 402–03 (2002).

394. *Kelly*, 280 F.3d at 947.

395. *Id.* at 948.

396. *Id.* at 947.

397. *Id.* at 948.

398. As Jane C. Ginsburg, *How Copyright Got a Bad Name for Itself*, 26 COLUM. J.L. & ARTS 61, 71–73 (2002), has suggested, the Ninth Circuit effectuated an "encouraging" balance between the public interests in the broad dissemination of information through the internet and the copyright owners' economic interests vis-à-vis potential markets for digital distribution of their works.

399. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007).

400. *Id.* at 1155.

for inline-linking and -framing since the search engine neither stored nor communicated copies of the original works to the users.⁴⁰¹ Google simply provided HTML instructions directing the browsers of users' computers to websites where those earlier works were stored.⁴⁰² Hence, the fair use analysis of the Ninth Circuit reviewing the denial of the district court to grant a preliminary injunction against Google focused on the secondary use that involved the creation and display of copies in the form of thumbnails that were saved in Google's servers.⁴⁰³

Turning to the assessment of the four factors, the opinion followed the principles set out in *Kelly*. In both cases, the conclusions on the first three factors were the same.⁴⁰⁴ What differentiated the two disputes in factual terms was that Perfect 10 had already developed a market for reduced-size images downloadable onto mobile phones. Hence, the plaintiff was able to come up with a legal argument that the secondary use harmed its markets because the thumbnails could effectively supplant the demand for the original images.⁴⁰⁵ Unfortunately for Perfect 10, there was no evidence suggesting that internet users had downloaded its images for cell phone use.⁴⁰⁶ With the potential harm remaining just hypothetical, the fourth factor was found to favor neither party.⁴⁰⁷ Weighting the significant benefit to the public derived from Google's internet search service against a flimsy possibility of harm, the court was not at all hesitant to rule that the secondary use was fair.⁴⁰⁸ To put it differently, the standard of care imposed on third parties does not require them to take precautionary measures against harm that is only theoretically likely or purely imaginable damage.

Major libraries consented to Google creating scanned copies of their collections to set up an innovative search service offering the utility of text- and data-mining tools.⁴⁰⁹ With the aid of Google's prod-

401. *Id.* at 1159–63.

402. *Id.* at 1155.

403. *Id.* at 1163.

404. Both cases illustrate the notion that the re-contextualization of an earlier work would give rise to a transformative secondary use even in cases of verbatim copying, provided that the copy serves a different function. See Michael D. Murray, *What Is Transformative? An Explanatory Synthesis of the Convergence of Transformation and Predominant Purpose in Copyright Fair Use Law*, 11 CHI.-KENT. J. INTEL. PROP. 260, 273 (2012) (examining the development of the analysis under the first factor and showing how courts have given effect to the utilitarian purposes of copyright protection while assessing the transformativeness of secondary uses).

405. *Perfect 10*, 508 F.3d at 1168.

406. *Id.*

407. *Id.*

408. *Id.*

409. *Authors Guild v. Google, Inc.*, 804 F.3d 202, 207 (2d Cir. 2015).

uct, users could obtain information as to whether a particular word or phrase is referenced in a book and, if yes, in what frequency, along with a maximum of three short snippets containing the search term. In return, the participating libraries were allowed to maintain digital copies of the books included into the project under the condition that they would not be put in uses infringing copyrights of third parties.⁴¹⁰ Confronted with a copyright infringement claim filed by three authors, Google successfully argued a fair use defense before the district court, which granted summary judgement in its favor.⁴¹¹ On appeal, the Second Circuit had to review the assessment of the lower court's finding that both the "search" and the "snippet view" functions of Google's service constituted fair uses of the earlier authorial works.⁴¹²

The defendant's enterprise has resulted in a manifold social welfare increase.⁴¹³ It made it possible for researchers to track language usage or even the lack thereof in all possible contexts throughout a particularly long period of time. Some rudimentary bibliographical information along with data about the terms mostly referenced in each book is made available to the public. The users are also provided with links to electronic stores and a list of library collections where the book can be found. By allowing the user to view the term in a relatively narrow context within the text, which is nevertheless enough for facilitating a decision as to whether the book is of interest to him or her, the "snippet view" function increases the amount of information about the books available worldwide. It does not come as a surprise that the court held the secondary use to be highly transformative.⁴¹⁴ With its use of the earlier works, Google added something new, advancing the further purpose of making significant information about those books available to the searchers. The plaintiffs argued that Google's commercial motivation should militate in favor of denying fair use.⁴¹⁵ According to their argument, the defendant is a "profit-motivated" entity planning to leverage its control of book searches to fortify its dominance of the Internet search market.⁴¹⁶ Even if the profit reaped is indirect, since it is not attributable to the operation of "Google books" itself, commercialism was still, in the view of the plaintiffs, rampant enough to outweigh the transformative purpose of the use.⁴¹⁷ The court gave that argument a short shrift.⁴¹⁸

410. *Id.*

411. *Id.* at 206–07.

412. *Id.* at 207–29.

413. *Id.* at 214–18.

414. *Id.*

415. *Id.* at 207.

416. *Id.* at 218.

417. *Id.*

418. *Id.* at 218–19.

Referring to the examples of “universally accepted forms of fair use,” such as news reporting and commentary, Judge Leval proved the point that transformative character and commercial motivation are not mutually exclusive.⁴¹⁹ He saw no reason why commercialism should outweigh the highly transformative purpose of the secondary use.⁴²⁰ Importantly, the opinion ruled that the first factor favored the defendant, after stressing the absence of significant substitutive competition.⁴²¹ This means essentially that the court correlated the first and the fourth factors, something which also becomes apparent from its reference to the relationship between those two factors as it was described in *Campbell*. Thus, the court truly examined how the character and the nature of the secondary use affects the outcome of the overall balance between the profit-maximizing interests of the copyright owner and the public interest in letting the social benefit accruing from defendant’s transformative purpose materialize.⁴²²

Although the earlier works were expressive, the social benefit generated by the transformative purpose of the new use and the incapacity of Google’s service to function as a meaningful substitute for the original books meant that the second factor also favored fair use.⁴²³ Rightfully, the court correlated the second factor with the first and the fourth factors in order to examine the effect that the nature of the earlier work may have upon the overall assessment. Turning to examine the third factor, the opinion did not lose sight of its correlation with the fourth factor. The more extensive the copying is or the more qualitatively substantial the appropriated material is, the more likely it becomes that the secondary use will usurp plaintiff’s markets.⁴²⁴ Google may have copied entire books, but this was necessary for creating a machine-readable text and a corresponding index for each book without the respective unauthorized digital copy being revealed to the user of the “search” function. In addition, the amount and substantiality of the copyrighted material appropriated by Google was deemed proportional to the transformative purpose advanced by the first factor.⁴²⁵

419. *Id.* at 219.

420. *See id.* at 218.

421. *Id.*

422. Importantly, the court was able to ascertain the socially beneficial contribution of the secondary use and affirm the transformative nature of Google’s service even though the defendant had engaged in excessive verbatim copying of entire works. *Id.* at 220. Hence, transformativeness was properly assessed in light of copyright law’s purposes. *Id.*; *see also* PATRY, *supra* note 98, § 3:9 (noting that fair use does not require changes to the original and observing the development of transformativeness into a term of art serving teleological purposes).

423. *Google*, 804 F.3d at 220.

424. *Id.* at 221.

425. *Id.* at 221–23.

Equally, the defendant had taken all the precautionary measures necessary for ensuring that the “snippet view” function would not serve as an effective substitute for the books about which it was meant to inform the public. There were various limitations to the availability of snippets that all together contributed to the users being able to access “only small and randomly scattered portions of a book.”⁴²⁶ For that reason, only one snippet per page was permitted. It was also only one of every ten pages that was snipped. No snippets from books were made accessible if the nature of the earlier work was such that the users could avail themselves of a book’s value from reading a sole snippet.⁴²⁷ This was applicable to works such as dictionaries or cookbooks.⁴²⁸

Reaching the stage where the fourth factor had to be assessed, the court started its analysis by setting its correlation with the first factor as the premise of the discussion.⁴²⁹ Highly transformative uses are obviously less likely to usurp the plaintiff’s markets, especially when they serve a different purpose than the original work. Of course, it cannot be excluded that even a transformative use may give rise to a product that is highly substitutable with the copyrighted work of a third party. Google’s snippets were far from capable of having such market effect.⁴³⁰

The court did not exclude the possibility of other constellations under which consumer demand for access to the text of a given work could be satisfied through Google’s snippets.⁴³¹ In that event, some sort of economic loss would be possible in the form of either some foregone sales to ultimate consumers or a decrease in libraries’ demand for the snipped book. However, even if such harm was bound to occur, there was no indication that its magnitude would be grave enough to substantially harm the copyright owners’ markets. On top of everything, snippets are by their nature more likely to satisfy consumer

426. *Id.* at 222.

427. *Id.* at 210.

428. *Id.*

429. *Id.* at 223.

430. In that regard, *Google* also highlights the legal insignificance of presumptions within the fair use analysis. Systematic copying of entire works is not unfair per se. See PATRY, *supra* note 98, § 5:3. Dealings with earlier copyrighted works involving the mass digitization of books had already been addressed by the Second Circuit in *Authors Guild v. HathiTrust*, 755 F.3d 87 (2d Cir. 2014). There, the court held that the creation of digital copies for the purpose of allowing full-text book searches that only showed the page numbers on which a search term appears in a given work without displaying any “snippets” containing that term amounted to fair use. *HathiTrust*, 755 F.3d at 103. Such excessive copying was exempted from copyright liability on the grounds of fair use when carried out to allow the print-disabled to obtain access to copyrighted books. *Id.* at 101–03.

431. *Google*, 804 F.3d at 224–25.

demand for acquiring or confirming non-copyrightable factual information such as when a user inquires upon the date a historical event occurred and is able to ascertain the relevant data through the use of Google's "snippet view" service. The event of a user satisfying his or her need of consuming an author's copyrightable expression with the aid of a snippet was considered by the court to be a rather remote possibility.⁴³²

In other words, the alleged harm was neither reasonably foreseeable nor significant enough to justify the imposition of a standard of care that would induce the provider of an internet search service to lower the levels of its welfare-enhancing activity.

The fair use analysis of the Second Circuit in *Authors Guild v. Google, Inc.* is paradigmatic. Each factor, and the equities manifested therein, was assessed on the grounds of its impact on the overall fair use calculus after being correlated with the other factors and the equities they represented. In this respect, the Second Circuit has indeed administrated the fair use analysis as a truly multifactorial test implementing the structured balancing test required by copyright's rule of reason. After considering the utilitarian purpose of copyright to promote the public interest in knowledge dissemination and concomitantly protect the interests of the copyright holder, the court managed to determine an appropriate negligence standard for users to optimally regulate their levels of an activity that is socially desirable.

VI. CONCLUSION

Fair use has come a really long way. The fundamental principle underpinning the doctrine is fairly simple and has been well appreciated all along. An inroad to the intellectual property right is established to allow for some socially desirable dealings with earlier copyrighted works to emerge. To the extent that the copyright owner must succumb to the uncompensated use of his or her creation in some contexts, there is some reduction in authorial incentives, which counts as a social loss within the fair use calculus. Hence, the socially desirable secondary use should not disproportionately interfere with the copyright owner's interest in maximizing the financial returns from his or her creation and ultimately determining the use of the resource forming the subject matter of the exclusive right. In practice, however, the trade-offs between the social benefit added by a secondary use and the social loss associated with reduced creative incentives would not always be easy to determine. Nevertheless, the large amount of case law involving a fair use analysis has provided us with a lot of information relevant to the application of the doctrine. We are now able to predict

432. *Id.*

with a high degree of certainty how particular types of uses are likely to be assessed by the courts.

In the meantime, the courts have further developed the relevant legal principles in a way that promotes a more informed consideration of the equities involved. When assessing the transformative character of a given secondary use under the first factor, for instance, the focus is not on the phenotype of that use but rather on the actual social benefit that the defendant is contributing thereby. Equally, the assessment of the fourth factor entails a precise identification of the relevant market according to criteria that are directed at measuring the importance of internalizing the corresponding benefits for maintaining creative incentives. Thus, the courts have lived up to the challenge of developing teleological criteria for assessing the four factors in light of copyright law's rule of reason. Academic scholarship did its part too, having undoubtedly exercised significant influence on the development of the law.

Apparently, even socially desirable dealings with earlier works are not unconditionally exempted. Fair use requires secondary users to take into account the legitimate interests of copyright owners. In this respect, the fair use calculus operates as a negligence standard. But this does not render copyright infringement a tort mirroring negligence. It is neither necessary nor advisable, in my view, to restructure the tort of copyright infringement in a manner where it would end up emulating the tort of negligence to rectify any possible shortcoming that current copyright law may feature. Furthermore, the current legal framework is appropriate for an adequate evaluation of the arguments supported by copyright optimists and copyright pessimists⁴³³ in light of the policies served by copyright law. The Copyright Act has in fact adopted a mixed system of liability. Accordingly, copyright infringement mirrors trespass upon property for which the defendant is strictly liable, whereas negligence is utilized to optimize the levels of specific activities undertaken by third parties, which require some form of dealing with an earlier work of authorship. Fair use involves the imposition of negligence standards for socially desirable activities in order to optimize activity levels. The imposition of care duties toward the economic interests of the copyright owner aims at ensuring that the social loss resulting from any reduction in authorial incentives associated with uncompensated uses will not outweigh the social value derived from specific secondary uses. The doctrine of fair use induces users to optimally regulate their levels of activity. Overall, the appreciation of the tort of copyright infringement as a mixed system of

433. On this distinction see GOLDSTEIN, *supra* note 92, at 10–11 (explaining the maximalist and the minimalist approach to the scope of copyright protection).

liability, providing for a separate negligence standard to regulate activity levels in light of copyright's rule of reason, offers valuable insight into the nature and function of the fair use doctrine.