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## Tolerated Use

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## **Tolerated Use**

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# Tolerated Use

Tim Wu<sup>†</sup>

## Introduction

“Tolerated use” is a term that refers to the contemporary spread of technically infringing, but nonetheless tolerated use of copyrighted works. Such patterns of mass infringement have occurred before in copyright history, though perhaps not on the same scale, and have usually been settled with the use of special laws, called compulsory licensing regimes, more familiar to non-copyright scholars as liability rules. This paper suggests that, in present times, a different and slightly unusual solution to the issue of widespread illegal use is emerging – an “opt-in” system for copyright holders, that is in property terms a rare species of *ex post* notice right. In addition, this paper proposes a several ways to deal with tolerated use problems, including a complement-driven theory of derivative works, and the “copyright no action policy.”

### 1. The Rise of Tolerated Use

Copyrighted works are today used in many ways they once were not. There is a giant “grey zone” in copyright, consisting of millions of usages that do not fall into a clear category but are often infringing. These usages run the gauntlet, from powerpoint presentations, personal web sites, social networking sites, church services,<sup>1</sup> and much of wikipedia’s content to well-known fan guides. Such casual and often harmless uses of works comprise the category of tolerated use, whose discussion is the purpose of this first section.

The critical aspect of this phenomenon are uses of works that are of a mass quantity and low value per transaction. Copyright’s property structure, like most property systems, works best given relatively few

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<sup>†</sup> Professor, Columbia Law School. Copyright © Tim Wu 2007. I wish to thank Luis Villa, members of the Columbia IP colloquium, the 10-10 workshop and Douglas Lichtman and Jane Ginsburg for comments. I also thank Andrew Cohen for helpful suggestions.

<sup>1</sup> Brian D. Wassom, *Copyright Infringement in Worship Services: Problems and Potential Solutions*, 36 JOURNAL OF ARTS MANAGEMENT, LAW & SOCIETY 2, 127-160 (Summer 2006).

<sup>3</sup> See John Tehranian, INFRINGEMENT NATION: COPYRIGHT REFORM AND THE LAW/NORM GAP, 3 Utah L. Rev. 537, 543-47 (2007).

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significant uses of a given work that are each of high value. Today's world of mass low-value infringement is a different world.

The magnitude of such casual infringement is naturally hard to measure. In a paper entitled "Infringement Nation," performing what he calls a "gedankenexperiment," Professor John Tehranian calculates the potential copyright liability that a university professor might incur as he responds to emails, photocopies articles, goes swimming, and recites poetry. He arrives at a hypothetical figure of over \$12 million.<sup>3</sup> While the hypothetical is meant to be a bit goofy (a tattoo of "Captain Caveman" is among the sources of liability) Tehranian makes the point clearly that beyond true piracy, casual copyright infringement is sometimes a near-unavoidable part of many people's days.

The reason that there is such a giant grey zone in copyright today is often discussed.<sup>4</sup> Once upon a time, even as recently as the 1960s, it was difficult to infringe the copyright law. One needed a printing press, a radio station, or a means of pressing records, and such facilities were not owned by many. Today every man, woman, corporation and child has the technological ability to copy and distribute, and therefore to potentially infringe copyright in ways both harmful and harmless. That ability should be celebrated but it has created great and by now well-known challenges for the law.

One problem is that copyright lacks a vocabulary to describe what is happening in the 21st century. To help get a handle on what is going on, this section attempts to clarify and classify some of the uses of copyrighting works that may have already existed, but have emerged more prominently over the last twenty years or so.<sup>5</sup>

Traditionally, we might say that copyright comprehended five main categories of usage. They are (1) infringing use, (2) non-infringing use, (3) privately licensed use, (4) publicly licensed, or statutory use, and (5) fair use. The first category includes usage of a right owned by the owner of the copyrighted work without permission. The second category includes uses of copyrighted works that are non-infringing to begin with, such as private performances, and the use of a *de minimis* amount of a work. The third

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<sup>4</sup> See, e.g., Jessica Litman, *Digital Copyright* 111 (2001) ("Our copyright laws have, until now, focused primarily on the relationships among those who write works of authorship and disseminate those works to the public."); Jane C. Ginsburg, *Putting Cars On The "Information Superhighway": Authors, Exploiters, and Copyright in Cyberspace*, 95 *Colum. L. Rev.* 1466, 1488 (1995) (discussing the role of intermediaries).

<sup>5</sup> *Cf.* Julie Cohen, *The Place of the User in Copyright Law*, 74 *FORDHAM L. REV.* 347 (a consideration of copyright's users).

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category includes all privately licensed use by a person with the necessary permissions, including use, from the owner. Usage pursuant to a compulsory license regime (like that for “cover songs”) and usage pursuant to the statutory 17 U.S.C. §108 (archival) or §110 (performance) exceptions are in the fourth category, while the fifth category, which is technically a statutory exception as well, is the broader right of fair use.

### **Fig 1. Traditional Categories**

Infringing Use  
Non-infringing Use  
Privately Licensed Use  
Publicly Licensed use  
Fair Use

In simpler times, perhaps most of copyrighted use might have fallen into these categories, or at least enough so that other categories were not important. However, since the 1970s and 1980s, when copying became something of which individuals were capable, the usage landscape has changed.<sup>6</sup> In the last twenty years, some new categories of usage have developed, and here we can describe several - some well known, other less so.

The first is *implicitly licensed use*. Here, usage is licensed not by explicit contract but by an implied contract created by conduct or notice of one kind or another. Implicit licenses are by now a familiar part of the copyright scene, appearing in well-known cases like *Cohen v. Effects Associates*, and others.<sup>7</sup>

The second is the category of *tolerated use* studied here.<sup>8</sup> Tolerated use is infringing usage of a copyrighted work of which the copyright owner may be aware, yet does nothing about. There may be a variety of reasons for tolerating use. Reasons can include simple laziness or enforcement costs, a desire to create goodwill, or a calculation that the infringement creates an economic complement the copyrighted work -- it actually benefits the owner.

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<sup>6</sup> For a discussion of the changes in use of copyrighted works and related instances of individual enforcement, see, e.g., Jane Ginsburg, *Copyright and Control over New Technologies of Dissemination*, 101 COLUM. L. REV. 1613 (2001); Tim Wu, *Copyright's Communications Policy*, 103 MICH. L. REV. 278 (2004).

<sup>7</sup> See, e.g., *Effects Assoc., Inc. v. Cohen*, 908 F.2d 555 (9th Cir. 1990).

<sup>8</sup> For a discussion of “tolerated use,” see Tim Wu, *Does YouTube Really have Legal Problems?*, SLATE, Oct. 26, 2006, <http://www.slate.com/id/2152264>.

<sup>10</sup> 17 U.S.C. §106 (2000).

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As discussed earlier, parts of various fan sites and fan fiction sites that can be easily found on the internet typify tolerated use. Take for example, the fan site for the popular TV show *Lost*, broadcast by ABC, which is called the “Lostpedia.” Among other things, the Lostpedia posts full transcripts of the program; such postings are almost certainly copyright infringement. But nothing is done, not because ABC is lazy, but because it doesn’t think suing the Lostpedia is a good idea. Such lack of enforcement against fan sites seems to represent copyright owners’ judgment that the infringing uses are complementary to the main copyrighted products – or put more simply, than fan sites will increase, not hurt, demand for the show.

What is the difference between tolerated use and implicitly licensed use? The difference is legal. In the case of an implicit license you could, if brought to court, point to some conduct or writing that creates permission to engage in the activity in question. For example, many newspapers and magazines, such as the *New York Times*, provide a way for readers to email articles. Such emailing constitutes both a “reproduction” and a “distribution” of the articles under the copyright law.<sup>10</sup> However, were someone sued for such emailing would have a defense: that by clearly encouraging readers to email stories, the paper had implicitly created a contract — a non-exclusive license – permitting the reader to email the stories to friends.

By contrast, in a tolerated use scenario, there is no such contract, extant and impliable. Instead, what the defense, if any, is a fair use argument of some kind, an argument that the laches of the copyright owner should bar recovery (equity aids the vigilant),<sup>11</sup> or possibly a statute of limitations defense. The main point is that that the liability likely exists, but it is simply a matter of non-enforcement. The difference from an implied contract should be clear.

I just mentioned fair use -- is there a difference between tolerated use and fair use? Many of the uses that fall into the category of tolerated use might also arguably fall close in the category of fair use.<sup>12</sup> Hence an

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<sup>11</sup> See *MARY J. KLING v. HALLMARK CARDS INC.*, 225 F.3d 1030 (9th Cir. 2000) (discussing laches in the copyright context); see also Black's Law Dictionary 875 (6th ed. 1990) (" 'Doctrine of laches,' is based upon maxim that equity aids the vigilant and not those who slumber on their rights. It is defined as neglect to assert a right or claim which, taken together with lapse of time and other circumstances causing prejudice to the adverse party, operates as bar in court of equity")

<sup>12</sup> Fair use is a broad exception for various uses of copyrighted works that, by operation of the statute or common law, are considered fair. 17 U.S.C. §107 (2000). The best known examples are matters like educational uses, the use of copyrighted materials in reporting, parodies, and so on.

alternative way to describe what is happening today not as mass infringement, but rather a massive and fully legal exploitation of the fair use doctrine.

The problem with this description is that it isn't really clear whether it is right as a positive law matter – because we don't, in fact, know how many of today's casual mass infringements a court would find to be fair use. That's because, thanks to the inherent vagueness in the concept of fair use, and with the costs of litigation, the contours of fair use for casual infringement has not been and may never be well mapped out.<sup>13</sup> That makes it difficult to differentiate between use that is tolerated and that which is fair.

Take once again, for example, a typical internet fan guide. The copyright status of such guides is tricky; some parts are almost certainly fair use; other parts tolerated use; and other parts simply outside of the owner's control, falling outside the §106(2) adaptation right in the first place. Yet even if we accept a fairly generous notion of what counts as fair use, there remain many uses of copyrighted materials that are widespread and tolerated as opposed to fair.

By this point, I hope I have convinced you that there is a large category of technically infringing uses of copyrighted works that is neither clearly in the category of fair use, nor in the category of being implicitly or explicitly licensed. The next question is what the law is doing in reaction.

## **2. Notice Based Property Rights**

In this section, I'll suggest that one of the law's reactions to the rise of tolerated use is to develop various systems that make parts of copyright operate in a new way. It is the creation of "opt-in" copyright enforcement systems that requires the owner to provide notice before the usage of a work becomes infringing. Another way of describing this approach is a move toward an *ex post* notice property system. In this section, I'll make an effort to explain what such a system looks like and to provide some examples.

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<sup>13</sup> Things are made more complex by the fact that the fair use doctrine, reflecting its common-law origins, can and does evolve. A usage of a copyrighted work that was at one point infringing but tolerated might later on become a form of fair use as an adjustment to changed conditions, and vice versa.

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Most property rights lead to a liability at the moment of trespass, without further action necessary.<sup>14</sup> In real property law, if you walk onto Blackacre without permission, you become a trespasser at that moment.

But the pattern just described is just one possible configuration. Another scheme is one of “notice based” property rights—whereby an intrusion only becomes a trespass if some action is undertaken by the owner. Notice based rights can be of two types. The first are advance notice rights, where, for example, a “no trespassing” sign is required to convert an intrusion into a trespass. A far rarer species, but the subject of this paper, is the *ex post* notice right, or the “opt-in,” where use of the property is “safe,” or not illegal, until the owner takes some action—typically, complaining or issuing notice. At that point, *continued* use becomes illegal, but, importantly, usage up to that point is excused.

Advance notice rights are relatively common in American law. In the copyright context, for example, proper copyright notice on a work was long a prerequisite to the creation of an enforceable right.<sup>15</sup> In real property, many states in rural areas deem posting “Keep Off” or similar sentiments as a prerequisite to trespass liability.<sup>16</sup> Advance notice is interesting but not the main concern of this paper.

The *ex post* notice right, also called an “opt-in” right or a right subject to a “safe harbor,” is a much rarer creature. These are rights that require action after trespass to create liability – absent complaint, there is no wrong committed. As a species of what Ian Ayres calls “dual-chooser” rights, these rights have been mainly a topic of theoretical interest, rather like a rare subatomic particle.<sup>17</sup> Whatever the prevalence of dual chooser rights in other contexts, over the last decade, in ways formal and informal, copyright has in various areas begun to take on the attributes of a dual-chooser regime. That is, copyright has begun in various areas to require action by both parties to “arm” the right.

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<sup>14</sup> Another way to describe such rights is as “single chooser” rights. The “single chooser” and “dual chooser” language comes from Ian Ayres. IAN AYRES, *OPTIONAL LAW: THE STRUCTURE OF LEGAL ENTITLEMENTS* ch. 3-4 (2005).

<sup>15</sup> See Copyright Act of 1909. Today, sections 17 U.S.C. §104A(d)-(e) represent a vestigial notice regime. They require notice of intent to enforce a restored copyright: a global notice filed with the copyright office, or (if the restored owner misses the global notice filing deadline) individually-served notice is required to enforce the restored copyright against reliance parties (no notice required as to alleged infringers who don’t qualify as reliance parties). For example of notice, see *supra* note 5.

<sup>16</sup> See, e.g., Title 21, § 11-2115 of New York State Environmental Conservation Law.

<sup>17</sup> These rights are discussed in AYRES, *supra* note 10.



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We begin with several formal examples. The first and perhaps most important example is the usage covered by §512 of the Copyright Act -- the DMCA “safe harbor.” Relevant to our purposes, §512 immunizes search engines (like Yahoo) and hosts of user-directed content (like a web-hosting site) from copyright liability until sent explicit notice of the infringing use (notice) and until the entity fails to take down the content subject to notice. For this reason, §512 is referred to as a “notice and takedown” system.<sup>18</sup>

While, technically, the users become liable at the moment they upload infringing content, the economically relevant actor is often the search engine or hosting firm. And to that actor, the copyright regime has an opt-in right cast. Despite facilitating infringement, liability does not “activate” unless and until the owner takes action (sending notice).

A second and less well-known example concerns non-profit performance of copyrighted works. Under the copyright statute, non-profit performances are, subject to certain conditions, allowable unless the copyright owner objects and serves notice.<sup>19</sup> Stated otherwise, non-profit organizations may safely use non-dramatic works unless and until they receive notice of an objection.

A third area is orphan works. Works without an owner who can be located are generally recognized as creating problems. In 2006, the Copyright Office recommended a statutory amendment to deal with the orphan works problem.<sup>20</sup> That amendment would create another version of an *ex post* notice-based copyright scheme. Provided the user performed a diligent search for the owner of a copyright, he would be free to use a copyrighted work, subject only to a duty to stop doing so should the actual owner reappear and demand the use of her work be stopped. While different in some respects from our other examples, the proposed scheme is similar in pattern, since it is designed to make use of orphaned rights safer.

The fourth area surrounds the ongoing Google Books litigation. Google’s book search program has taken thousands of books, and created a searchable database which displays excerpts of the books.<sup>21</sup> Sued by the owners of the copyrights in the scanned books, in litigation, Google has

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<sup>18</sup> For the original, judicially created takedown regime, see *Religious Tech. Ctr. v. Netcom On-Line Commun. Servs.*, 907 F. Supp. 1361 (D. Cal. 1995)

<sup>19</sup> 17 U.S.C. §110(4)(b)(3).

<sup>20</sup> See UNITED STATES COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006), <http://www.copyright.gov/orphan/orphan-report-full.pdf>.

<sup>21</sup> For a good introduction, see Jeffrey Toobin, *Google’s Moon Shot*, THE NEW YORKER, February 5, 2007 at 30.

claimed a right, under the fair use doctrine (§107 of the Copyright Code), to provide searchable excerpts of copyrighted works.<sup>22</sup> Meanwhile, a relevant fact in the case is that Google will take down the work should the owner surface and so request.

Google believes that its book program is fair use with or without its “opt-out” feature. But a judge may think differently, and make the “opt-out” a necessary aspect of the fair use defense. If a court did so, it will have used §107 to create a right that requires notice to become active - in other words, an opt-in right. (What is opt-in and opt-out here has become a bit confusing, and for that I apologize).

I’m not the only one preoccupied with the opt-out aspects of the Google books litigation. In *Standing Copyright on Its Head, The Googlization of Everything and the Many Faces of Property*, Professor Oren Bracha directs his attention to that aspect of the case, and the importance of the opt-in/opt-out issue for the future.<sup>23</sup> As he puts it, we face a future of “mass aggregation of informational items under conditions in which the cost of ascertaining and clearing legal rights in each item is nontrivial. Under such conditions the opt-out or ‘opt-in’ question is very likely to become, metaphorically speaking, a question of life and death.”<sup>24</sup>

The final example is the informal equivalent to the above, created by policies of selective enforcement. In the world of tolerated use, most copyright owners do not enforce their rights to anything close to the statutory limit, particularly with respect to the adaptation right. Non-enforcement leads to a system where non-commercial users, especially on the internet, use the work and only stop using if issued a cease and desist letter. Unlike the other examples, this is not a formal opt-in right scheme, but rather an informal practice that nonetheless creates the same system.

These five real world examples are imperfect illustrations of the legal creation of a right that has *ex post* notice characteristics. (To some extent, they may represent a quiet return of notice requirements, albeit in an unusual form, to the copyright world, where they have been absent since 1976.)

The unusual form of the opt-in right is interesting in its own respect as a matter of property theory. This paper does not take a strong position on whether the arrival of *ex post* notice rights in copyright might be a good or

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<sup>22</sup> Eric Schmidt, *Books of Revelation*, WALL ST. J., Oct. 18, 2005, available at <http://online.wsj.com/article/SB112958982689471238.html>.

<sup>23</sup> 85 Texas L. Rev. 1799 (2007).

<sup>24</sup> *Id.* at 1803.

bad thing. Just as liability and property rules are useful in different scenarios, notice rights are not universally useless or useful. Instead, the rest of this paper will try to describe why opt-in or safe harbor regimes are becoming more common, and points out circumstances in which such regimes might produce useful outcomes. Specifically, this paper explores the use of safe harbor regimes as alternatives to property and liability rules - copyright's main answer to most of the problems it faces.

## 2. Notice Rights in the Cathedral

### *Property and Liability Rules*

In property theory, a property right is characterized by two characteristics important to this paper. The first is the availability of injunctive relief. The second is liability that arises regardless of any action on the part of the property owner. That configuration, of course, is obviously not the only way to structure a legal entitlement. The best known alternative to the property rule just described varies the first characteristic -- the availability of injunctive relief, creating what is usually called a liability rule.<sup>25</sup>

The difference between a liability rule and property rule, in Guido Calabresi and Douglas Melamed's original formulation, is in the form of relief: in a liability regime, the trespasser is charged or may pay a fee (statutory or set by a court) for the trespass. For example, in real property, the Government may take property so long as it pays "just compensation." In copyright, anyone has the right to make a "cover" of a copyrighted song, upon payment of a fixed fee (originally two cents per copy) to the owner of the copyright in the composition.<sup>26</sup>

There is a longstanding and perhaps never-ending debate over when and where a liability or a property regime might be a better choice. Property rules are said to have the advantage of forcing the parties to bargain for the transfer of the right, and to therefore facilitate transactions in an environment where transaction costs are low.<sup>27</sup> The idea is that the property right that I have in my house forces you to bargain with me if you want to

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<sup>25</sup> See Guido Calabresi & Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972). I ignore here the fact that property rules can also be classified as a form of liability rule with extremely high prices; high enough that few people would pay the price to engage in the activity in question.

<sup>26</sup> See Copyright Act of 1909, §1(e).

<sup>27</sup> See *id.* at 1106-1110; ROBERT COOTER & THOMAS ULEN, LAW AND ECONOMICS 100 (1988).

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buy it, rather than going to the local government official to see what price she might set. Liability rule advocates contest the premise that property rights facilitate transactions, suggesting that liability rules are, in fact, more likely to force bargaining, given the prospect of a judicial setting of the price for the entitlement.<sup>28</sup>

A chief advantage of property rights is the price mechanism. Since a property system requires an individualized transaction for every transaction, it should be expected, in a robust market, to generate more accurate prices than a blanket price set by government or a private rights-holding organization. To make the example obvious, if Manhattan homes were priced by Congress at a flat fee of \$1000 / square foot, the prices might be less reflective of actual supply and demand than the prices arrived at by private bargaining.<sup>29</sup> As the example suggests, liability rules look particularly unattractive when a legislature sets a blanket price for a class of rights that may vary in value quite a bit. A judicial liability rule, like a damage verdict in a tort lawsuit, is still a government set price, but one more sensitive to context.

Liability rules have obvious advantages where bargaining is likely to fail or be very difficult. That may happen for a variety of reasons. It may be because the parties are strangers who don't meet before the transaction (as in a car accident). It might be that the market is thin—has too sparse a record of transactions for effective bargaining (no one knows how much something is worth, so the negotiations break down).<sup>30</sup> Or, in what is almost the opposite kind of problem, a bargaining failure can occur due to the sheer number of rights-holders, so that the transaction costs of agreeing to a transfer become too high for deals to be made.<sup>31</sup> For these and other reasons a bargained-for transaction may break down, making a property system less useful.

In the field of copyright, we find liability rules (including zero-price liability rules, i.e., commons regimes) in a variety of these situations. Private organizations like ASCAP create “blanket licenses” for radio stations who want to license a large collection of songs in one transaction. The fair use system creates zero-price liability rules (normally referred to as defenses to

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<sup>28</sup> See Ian Ayres & Eric Talley, *Solomonic Bargaining*, 104 YALE L. J. 1027 (1995).

<sup>29</sup> See, e.g., Robert Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CAL. L. REV. 1293 (1996).

<sup>30</sup> Ayres & Talley, *supra* note 22.

<sup>31</sup> See Heller, *The Tragedy of the Anticommons*, 111 HARV. L. REV. 621, 653 (1998)

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liability) in situations where bargaining is likely to fail.<sup>32</sup> For example, fair use rights are granted to parodists based on the assumption that bargaining over a work designed to humiliate the original author has a good chance of breaking down. Finally, over the history of copyright, a variety of government set licensing regimes, known as compulsory licenses, have emerged as settlements to conflicts between industries.<sup>33</sup> For example, cable operators have the right, on the payment of a fixed fee, to retransmit the copyrighted content of television broadcasters.<sup>34</sup> The compulsory licenses, which tend to cover scenarios with a huge number of rights, are licensed for a single fixed price, eliminating transactional problems.

### *Notice Rules*

In the spirit of work exploring alternatives to the choice between property and liability rules, this paper addresses the role of notice, and in particular, *ex post* notice in the structuring of entitlements. The use of notice rights can serve as a mechanism for dealing with some of the transactional problems that liability rules are designed to address. Like a liability rule, an *ex post* notice regime can overcome certain classes of transaction cost problems—namely, and most importantly, anti-commons problems. But more important is the possibility that safe harbors may help solve certain types of information problem, by forcing greater disclosure of private information important for accurate valuation of an entitlement.

In most American states, hunters have a right to hunt on unenclosed land unless the land-owner posts a sign that says “Keep Out,” “No Hunting” or something similar.<sup>35</sup> Most of these laws emerged in a time when hunting was a more economically significant activity today, and that must be kept in mind for this discussion.

What economic purpose is served by a posting law? In a typical property rule or liability rule scenario, the potential trespasser may be deterred by the existence of legal liability. In the absence of a posting law unused land that is good for hunting might be wasted, because of uncertainty as to whether the hunting is illegal. The notice requirement prompts the owner to disclosure private information if, for some reason hunting on the land in question might be particularly harmful.

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<sup>32</sup> 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).

<sup>33</sup> See Wu, *supra* note 4.

<sup>34</sup> 17 U.S.C. §111 (2000).

<sup>35</sup> These statutes are collected in Mark R. Sigmon, *Hunting And Posting On Private Land In America*, 54 DUKE L.J. 549 n.69 (2004).

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There may be plenty such reasons. It might be the case that the land in question is frequently used by children to play hide-and-seek, a usage likely to be incompatible with the hunting of wild animals with firearms. On the other hand, there might be no reason not to let people hunt: the land may be simply be held empty, and would experience no loss in value from hunting. In either case, the owner is the most likely person to have information bearing on the question, and the requirement of incurring the costs of posting forces him to disclose it.<sup>36</sup>

It is probably not accurate to describe notice regimes as an alternative to liability or property rules. But notice regimes are targeted at the same problem—namely, moving an entitlement to its highest and best usage. By forcing the original rights owner to take the action of communicating notice, notice regimes can uncover rights that are, in fact, either hold no value by their owners, or usages that are compatible with existing usages.

### *Ex post Notice Rights*

*Ex ante* or advance notice regimes are relatively common. Copyright law, for example, was long an *ex ante* notice regime. Until the passage of the 1976 Copyright Act, to obtain copyright protection, an owner was required to publish works with proper notice of copyright protection, as described by

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<sup>36</sup> Land-posting and other notice rules are either related to, or species of, the “dual chooser” rules described by Paul Goldbart and Ian Ayres. See Ian Ayres & Paul M. Goldbart, *Optimal Deregulation and Decoupling in the Design of Liability Rules*, 100 MICH. L. REV. 1 (2001). Typically, property and liability rules are modeled as “single chooser” rules. Take, for example, the compulsory license of 2 cents to record a copyrighted song. The defendant (not the owner) decides whether or not to pay the fixed fee in exchange for the entitlement to record the song. In a dual chooser regime, as Goldbart and Ayres write, both the original owner and the trespasser have “a potential impact on how the entitlement is allocated.” The simplest example is a rule whereby both parties have to agree to the fixed price for it to become an active liability rule. Another example is a rule whereby a trespasser gets the entitlement unless both parties agree that the entitlement should be allocated to the plaintiff.

As Goldbart and Ayres admit, dual-chooser rules can seem “esoteric and otherworldly.” *Id.* at 36. While they claim otherwise, finding intuitive real world examples of such rules is not easy. For the purposes of this paper, what matters about the dual chooser model is the notion of an entitlement scheme as one that requires choices on the part of both the owner and trespasser to determine the existence of legal liability.

<sup>39</sup> See Copyright Act of 1909 §§10, 19, 20 (1909).

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statute.<sup>39</sup> As described above, in most states unenclosed land includes rights that require postings to become active. Landlord-tenant law is full of advance notice requirements that activate rights, like the notice required before entering a renter's property.

This paper focuses on a slightly more unusual notice regime -- the *ex post* notice system. As discussed already, the difference is that the owner must provide notice to the trespasser *after* the trespass for the trespass to become illegal. In other words, the trespasser is in the clear, unless and until she receives appropriate notice from the owner of the property.

At first glance it may seem that the pattern just described is the same as a normal property right. If a nearby baseball stadium is noisy to the level of nuisance, I have to take action (filing a suit) to have a court issue a fine or an injunction. The critical difference, at least as I'm choosing to describe the issues, is that we don't usually think of filing of a complaint as an action that creates liability: the liability is there, and the lawsuit is a form of enforcement. (I should warn the reader that I sometimes will treat filing a lawsuit as a form of notice, for this inconsistency I apologize). In our baseball stadium example, we assume such noise is illegal at the moment it begins and therefore that the baseball stadium must factor that risk into its decision whether or not to open.

Sometimes the difference between an notice regime and a normal liability or property rule may seem irrelevant. If the trespasser is making a sizable, irreversible investment (as in the case of the stadium), whether building is illegal at the outset or becomes illegal later probably makes little difference. But like many rights configurations, a regime that is useless in most contexts may be interesting or valuable in others.

### *Examples*

Here I describe two idealized scenarios where an *ex post* notice regime might be useful.

*The Physics Library.* Consider the company PL, willing to spend up to \$15 million to create a downloadable library of 100,000 academic papers published in physics, where each paper has a separate owner. We may assume that the fair market licensing value of 90% of the papers is 10 cents, (the "bad papers") while the value of 10% of the papers (the "good papers") is \$1000 each. At the outset, PL does not know which papers are bad and which are good.

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In a world of perfect information and zero transaction costs, the library, under our assumptions, could be built for \$10,009,000. That's \$1,000 paid to each of the 10,000 owners of valuable papers, and 10 cents paid to the 90,000 remaining owners. It would therefore be built.

But if we add transaction costs and lack of information, matters change. If it costs, on average, \$100 of time and search costs to contact any individual in our world, then (excluding licensing fees), the library will cost \$10 million ( $\$100 \times 100,000$  authors) to build, plus \$10,009,000 in licensing fees. The cost of reaching the author is what prevents the library from being built. This is an example of transaction costs themselves, as opposed to licensing prices, blocking a transaction, a problem often called an anti-commons problem.

One solution to the problem is a liability rule. If government or a private organization<sup>40</sup> sets a price of \$100 for the rights to each paper, no money need be spent searching for owners. The library will cost \$10 million and will be built. That is a favorable outcome that saves \$10 million in transaction costs, but it is also a suboptimal outcome in other ways. It wastes money by overcompensating the vast majority of copyright owners, while undercompensating others. It does all of this because it makes the centralized informational assumption that each paper is worth the same. In our model, there is no device for extracting better price information.

The *ex post* notice, or a safe harbor, regime offers a different solution to the problem. The structure of a safe harbor allows PL to build the library first. After the library exists, all owners who value their rights over \$100 (the costs of finding and contacting any person) will do so, and demand payment for a license to their works (for \$1,000, under our assumption). Those who value their rights less than \$100 will not contact PL. The library, under these assumptions, will be built for \$10,000,000 (10,000 good papers  $\times$  \$1,000) or slightly less than the price in a world of no transaction costs.

The advantages of the *ex post* regime in this idealized example are obvious. The owners of valuable papers are compensated at \$900 (\$1000 minus \$100 in the search costs they incur searching for PL), which is less than in a world of perfect information, but more than under the compulsory licensing regime. The trick with the safe harbor regime is that it flips the economics of transaction costs. It forces the owner to divulge private information as to the value of the right—in particular, it makes clear whether the value of the right to the owner is less than zero.

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<sup>40</sup> A compulsory license-like scheme, of course, can also be created by a private consortium.



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*Fandom.* Consider the TV producer BCA (Broadcast Company of America), creator and copyright owner of the TV show “Island.” “Island” has millions of fans, and 100,000 of whom who wish to use the content of island in various ways, such as contributions to a fan site, artwork, encyclopedias, and so on, as well as those who’d simply like to distribute the show.

To simplify things we can assume that every proposed usage is infringing. Of the usage, we might assume that 90,000 of the users are good, and will voluntarily produce content with a value of \$100 to copyright owner, as marketing for the original work, or otherwise (total of 9,000,000). 10,000, meanwhile, are bad users, who will use the work in a way that diminishes the value of the original work by \$1000, either as a substitute for a product the owner is creating, or some kind of tarnishment.

In a world with perfect information and no transaction costs, the copyright owner would license the 90,000 positive uses and prohibit the 10,000 negative uses, creating a surplus of \$9 million.

In another world, we might assume the owner has two options: (1) tell all users to stop, and (2) let all users do what they like. Neither is perfect. If the owner forces all users to stop, he forgoes \$9 million in marketing, plus the costs of 100,000 cease and desist letters, which we can assume, as above, cost \$100, for a total cost of \$10 million.

Otherwise the owner can let users do what they like, gaining the \$9 million in marketing but losing \$10 million in tarnishment and substitution. Given the costs of enforcement under these assumption, non-enforcement is the better option – at a cost of \$1 million.

What the owner wants is a relatively low cost way of distinguishing between good users and bad users. One way is the equivalent of an opt-in regime – allowing users to do what they like, and *then* trying to block the uses that are harmful, as opposed to simply infringing. If the user is able to spend  $10,000 \times \$100$ , or \$1 million, chasing only the substituting users, he ends up with \$9 million in marketing, minus the million in enforcement costs, for a total of \$8 million.

What I’ve just described is an approximation of what large copyright owners are doing in response to many of the uses of their work: that is, tolerating most infringement, and enforcing only as against the costly varieties. However, the trick is to enforce without deterring complementary use of the underlying work – something the “No Action Policy,” described below, might help with.

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These two examples suggest that ex poste regimes may be most useful in situations high volume, low value situations. Or, stated otherwise, when:

- Large number of property rights need be licensed, or large number of uses are present; and
- The actual value of the rights or usage is known best by its owner; and
- Most of the transactions in question are of low value, negative or positive.

### *Problems*

There are a few problems or challenges with the ex ante notice schemes described here. The first is scalability. The Physics Library features just a single user and large numbers of copyright owners. But what if there is not a single Physics Library, but ten, or if the number of libraries becomes as large as the number of users? In that case, the copyright owner, even if he has private information suggesting the value of the work, himself faces disabling transaction costs. As we let the number of libraries begin to approach infinity, the pain of transaction costs is felt on both sides. Douglas Lichtman crystallizes this concern by saying that “opt-out will quickly become an expensive and futile game of whack-a-mole for copyright holders.”<sup>41</sup>

This may suggest that the utility of an ex poste right structure depends on being right about what side the bulk of the transaction costs lie on one or another side. The Physics Library example relies on an assumption which seems fair, that there will be far more physics papers than serious libraries; that is the foundation of the argument in that context.

The more general point is this. Every time copyright allocates the duty to seek a license to the user or owner, respectively, it is making a guess about where the bulk of the transaction costs lie. Today the default is to allocate those costs to the user, which may make sense for many situations. But surely not always – or we wouldn’t ever think fair use or compulsory licenses were a good idea. As Oren Bracha argues, “the normative question of whether and under which circumstances digital libraries should enjoy an opt-out-based safe haven cannot be answered on the basis of copyright’s ‘nature.’”<sup>42</sup>

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<sup>41</sup> See Douglas Lichtman, email to Tim Wu, Feb 15, 2008.

<sup>42</sup> Bracha, *supra* n. 23, at 1811.

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Finally, and interestingly, when the number of infringements is large or approaches infinity (as in the Addictive Program example), a different dynamic takes over. Since the transaction costs of trying to license the use of hundreds of thousands of infringers is overwhelming, it puts the owner in an *ex post* notice situation whether he likes it or not.

A second criticism of the foregoing suggests that the models I've used are too static, particularly as pertains to transactions costs. The point runs something like this. It may be true that an opt-in right is useful when the transactions costs of licensing are greater than the value of the usages in question. However, what the discussion here ignores is that the effect of the copyright system and the choice of the rule on the transaction costs in question.

Professor Douglas Lichtman, who made this argument to me, puts it as follows:

"Under current law, would-be users of a copyrighted work have a huge incentive to find ways to lower transaction costs and in that way facilitate licensing. After all, in many settings, the only way for a user to make his desired use is for him to overcome the transaction cost that stands in the way of the desired transaction. Similarly, under current law, copyright holders have an incentive to find ways to lower transaction costs because, with lower transaction costs, a copyright holder could increase not only the number of licenses he signs but also his share of any surplus from each transaction."<sup>43</sup>

The strength of this point depends on two crucial numbers: the volume and value of usage we are talking about. In the world of valuable and infrequent proposed uses (say, a film version of a book) there are, as Lichtman suggests, strong reasons to want to reduce transaction costs; hence the existence of whole careers – agents – whose job is to do just that.

But in any instance where the volume of usage is large (in the millions, or even approaching infinity) and the value of the usage is low, the relevance of dynamic transaction costs seems to disappear. As the number of uses approaches infinity, any transaction cost at all will also approach infinity. That may be too abstract: in more concrete terms, it is hard to imagine a mechanism that preserves a negotiated license system that costs less than \$10 per use (and that seems absurdly low), and when multiplied by millions, we again face the fact that transaction costs are the determining factor.

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<sup>43</sup> *See id.*

## *Tolerated Use*

It is possible to imagine a non-negotiated mechanism for squeezing transaction costs much lower – like a centralized web site with automatic licenses for sale – but at some point that solution simply begins to resemble a liability rule. As stated above, there is nothing wrong with using liability rules to solve transaction costs problems, but the point of this section is to suggest that there are also other ways – in particular, by allocating the duty of notice.

### **3. Reducing the Pressure On Tolerated Use: Complements and the No Action Policy**

The preceding discussion showed how and why copyright seems to be evolving toward an opt-in rights system for dealing with the giant gray zone of tolerated use. In this last section I'll discuss several alternatives to the opt-in approach that may clarify boundaries and reduce uncertainty in different tolerated use scenarios.

#### *Better Treatment for Complements*

One reason that many uses of copyrighted works are tolerated is that they cause no harm to, and in fact help, the owner of the original copyrighted work. For example, if I create a film that is obscure, and a fan creates a loving website for the film that uses images from the film, it is probably the case that the fan has infringed. Nonetheless it is also obvious that the web site creates value for the owner of the original work.<sup>44</sup> In fact, many fan websites and other tolerated uses are exactly the kind of thing that content creators pay for when it is called “marketing.”

In economic terms, what the fan has created is called a complement (as opposed to a substitute) – a good that makes another good more valuable.<sup>45</sup> For those unfamiliar with this concept, examples are plentiful. More lenses make my camera more valuable. The sale of screws makes a screwdriver more valuable. My coffeemaker becomes more valuable the more varieties of coffee are available. And so on.

Now why is this relevant? I am suggesting that one of the chief problems in the present copyright world and its patterns of mass, tolerated infringement is that the law is not sensitive to complementarity. One way of

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<sup>44</sup> See, e.g., Laura Landro, *Hobbits in Cyberspace*, WALL. ST. J., Mar. 21, 2000, at [\[redacted\]](#) (discussing the relationship between New Line Cinema and Lord of the Rings fan sites).

<sup>45</sup> See R. PRESTON MCAFEE, INTRODUCTION TO ECONOMIC ANALYSIS 2-12 (1996), available at <http://www.mcafee.cc/Introecon/IEA.pdf> (providing a formal economic definition of complements and substitutes).

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helping ease the whole problem of massive casual infringement is to make the complementary-nature of the work more explicitly the leading determiner of whether a given secondary work is considered a reproduction or adaptation of the work under §§106(1)-(2), or fair use under §107.

We can begin with the example of a book review. It is sometimes stated that a book review would be infringing if it weren't protected by the fair use doctrine, particularly if it quotes from the source.<sup>46</sup> But the prior question should be asked: whether a usual book review is an infringement at all, regardless of fair use.

The text of the adaptation right seems to suggest that the answer is to be “no.” The question, based on the definition of “derivative work” in §101 is whether the original work is either listed in the text, or in some way “recast, transformed, or adapted.”<sup>47</sup> It seems implausible to suggest that a book review is the adaptation or recasting of a book into a new form, in the sense that a novel is recast into a play. Hence the conclusion reached by Judge Richard Posner in the Beanie Baby case, *Ty, Inc. v. Publications Int'l*, which asks, among other things, whether a collector's guide to a series of stuff animals is a derivative work. He writes there that “a collectors' guide to a series of copyrighted works is no more a derivative work than a book review is.”<sup>48</sup>

Unfortunately, courts – in particular the Second Circuit, sometimes act as if anything related to or somehow borrowing from the original has been “recast, transformed, or adapted.” In *Twin Peaks Productions v. Publications International*, concerning a guide to the Twin Peaks series, the court summarily concluded that the guide was a derivative work by simply saying “the Book contains a substantial amount of material from the teleplays, transformed from one medium into another.”<sup>49</sup> Unlike the Seventh Circuit approach, the *Twin Peaks* approach, taken with little evident thought, turns almost every secondary work into a derivative work.

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<sup>46</sup> “[E]ven substantial quotations might qualify as fair use in a review of a published work,” *Harper & Row, Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 564 (1985).

<sup>47</sup> The 17 U.S.C. §101 definition of derivative work reads “A ‘derivative work’ is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a ‘derivative work.’”

<sup>48</sup> *Ty, Inc. v. Publications Int'l*, 292 F.3d 512, 522 (7th Cir. 2002)

<sup>49</sup> 996 F.2d 1366 (2d Cir. 1993).

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The other possibility is that a book review is an infringing reproduction that is “substantially similar” to the original. On first reading, the idea that a book review is a copy of a book seems plainly ridiculous (unless, of course, it were just a disguised abridgement of the book). The question gets a bit harder if we speak of a book review that includes quotations from the book. Nonetheless, while realizing some of the caselaw goes in other directions (discussed below) I don’t see how it makes any sense to think that a book review, even with quotes, satisfies the classic idea of a copy being something that usurps the market for the original, by appealing to and drawing away the same audience. This is the idea of a copy in the Second Circuit’s *Arnstein v. Porter*, which says that the owner’s “legally protected interest is in ... the potential financial returns from his compositions, which derive from the lay public’s approbation of his efforts.” The court decides infringement by deciding, “whether defendant took from plaintiff’s works so much of what is pleasing to the ear of lay listeners, who comprise the audience for whom such popular music is composed, that defendant wrongly appropriated something which belongs to the plaintiff.”<sup>50</sup>

This statement in *Arnstein* reflects the idea of an illegal copy stealing the market for the original product. That view also anchors the work of Professor Paul Goldstein, whose work on the distinction between derivative and reproduction rights is foundational. In his 1983 paper, *Derivative Rights And Derivative Works In Copyright*, Goldstein is in search of “the point at which the right ‘to reproduce the copyrighted work in copies’ leaves off and the right ‘to prepare derivative works based upon the copyrighted work’ begins.” It is, he says “that point at which the contribution of independent expression to an existing work effectively creates a new work for a different market.” That means that the “infringer who copies a novel verbatim violates only the right to reproduce, for he has created neither independent expression nor a new market. But the derivative work right is infringed differently: “By contrast, motion pictures, translations and comic strips based on the novel will all infringe the derivative right because they add new expressive elements and serve markets that differ from the market in which the original was first introduced.”<sup>51</sup>

But sometimes we find language that doesn’t reflect this understanding of what a substantially similar reproduction is – language that seems to focus on brute fact of reproduction of even some small amount of the original work, regardless of whether the result is to create a product that competes with the original. Sometimes, and crucially, this language comes from cases that are not true cases of changing genres: they feature,

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<sup>50</sup> *Arnstein v. Porter*, 154 F.2d 464 (2d Cir. 1946).

<sup>51</sup> Paul Goldstein, *DERIVATIVE RIGHTS AND DERIVATIVE WORKS IN COPYRIGHT*, 30 *J. Copyright Soc. USA* 209 (1983).

instead, two competing products, and a contest over the idea-expression dichotomy. That's why it is dangerous to misuse nuggets such as "no plagiarist can excuse the wrong by showing how much of his work he did not pirate."<sup>52</sup> That phrase is from Learned Hand's famous *Sheldon* opinion – one in which there was no question that the original play at issue in that case ("Dishonored Lady") would be competition with the defendant's film ("Letty Lynton"). The quote pertains to the idea-expression dichotomy, not the question of market competition.

Other times courts, especially the Second Circuit, have loosely allowed the reproduction right to expand so as to cover what is really a derivative work. The worst offender is the Second Circuit's "Seinfeld" case, *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, which asks whether a trivia game (the "Seinfeld Aptitude Test") infringes the copyright in the television show *Seinfeld*.<sup>53</sup>

In the *Seinfeld* case, the court managed to find that a trivia game is a copy of a TV show. The absurdity of that result seems to speak for itself. The idea of finding a trivia game to be any kind of substitute for the original show seems laughable. And that something is deeply wrong is obvious from the opinion itself, which struggles painfully with tests designed for two works competing in the same market, like that from Learned Hand's *Peter Pan* (where the question is whether "the ordinary observer, unless he set out to detect the disparities, would be disposed to overlook them, and regard [the] aesthetic appeal [of the two works] as the same").<sup>54</sup> It doesn't make any sense to compare the market appeal of a trivia game and TV show because they do not compete. Similarly, stumped with how to compare the "concept and feel" of a TV show the court simply declined altogether, saying that works in "different genres and media, must necessarily have a different concept and feel." What the court should have said is that works in different genres are simply not covered by the reproduction right.

A case like *Seinfeld* is so confused because, at risk of repeating myself, it is absurd at some point to ask whether products that are not remotely in

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<sup>52</sup> *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 56 (2d Cir. 1936). A similar line, "a copyright infringement may occur by reason of a substantial similarity that involves only a small portion of each work" comes from *Burroughs v. MGM, Inc.*, 683 F.2d 610, 624 n. 14 (2d Cir. 1982), a case about competing Tarzan films.

<sup>53</sup> 150 F.3d 132 (2d Cir. 1998); see also *Twin Peaks Productions v. Publications Intern.*, 996 F.2d 1366 (2d Cir. 1993) (finding guide to TV show *Twin Peaks* infringing).

<sup>54</sup> *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (2d Cir.1960).

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the same market or genre are copies of each other. It is like asking whether the Superbowl is a copy of “War and Peace,” or whether the LSAT is a copy of Star Wars – the question is nonsense to begin with. It serves as an example of what Felix Cohen once described as law’s tendency to create “pseudo problems, devoid of meaning.”

But like many such questions, the answers have a consequence. And the consequence of cases like *Castle Rock* is to create genre-spanning reproduction right that helps create the mass infringement problem we’ve discussed in this paper, by making nearly anything that draws on the original an infringement of either §106(1) or 106(2), unless it is fair use.

The better approach, tracking the Seventh Circuit’s suggestions, is as follows. The question of reproduction should be what *Arnstein* and Paul Goldstein suggest: a copy is a work that misappropriates the market that the original product reasonably could have expected to capture. An adaptation, meanwhile, is a work that is at least a partial substitute for the original product, in the sense of taking that product and adapting it to a different medium, yet retaining the basic structure and purpose of the original product. And finally, a pure complement, like a book review, or yes, a trivia game, is outside of both the §§106(1) and 106(2) rights altogether.

Some might say that this approach strips the adaptation right of any scope. The approach is certainly in tension with some of the caselaw, though it is supported by some as well.<sup>55</sup> But in defense of the approach, I point out that the right of adaptation between media remains – preserving such things as film rights, translations, photocopies of magazine articles,<sup>56</sup> and book versions of a ballet,<sup>57</sup> all of which substitute in part for the original rather than complement it. What would be excluded from the adaptation right under this reading are works which share some content but do not share the object of the original – like fan sites which report information about a show, but which cannot replace the story-telling aspect of the show itself.

I don’t deny that a broad adaptation right, even one that covers complements, may create incentives for authors or publishers to invest more initially. But a too-broad definition of reproduction or adaptation, that leaves nearly nothing out, creates ridiculous results as well. As we’ve

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<sup>55</sup> *Compare Ty v. GMA Accessories*, 132 F.3d 1167 (7th Cir. 1997) and *Lewis Galoob Toys v. Nintendo of Am., Inc.*, 964 F.2d 965 (9th Cir. 1992) with *Castle Rock Entm’t, Inc. v. Carol Publ’g Group*, 150 F.3d 132 (2d Cir. 1998), *Micro Star v. Formgen Inc.*, 154 F.3d 1107 (9th Cir. 1998) and *Addison-Wesley*, 207 F. Supp. at 678.

<sup>56</sup> See *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913 (2d Cir. 1994).

<sup>57</sup> See *Horgan v. MacMillan, Inc.*, 789 F.2d 157 (2d Cir. 1986).



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already seen, it has created the right so broad that it is no longer even in the interest of owners to try and enforce it. My suggestion is that this construction of the adaptation doctrine might prove a useful way for reducing the pressure created by great expansion of tolerated use. It would move much valuable secondary usage of copyrighted works into a different category — such works would not be adaptations at all, and hence would not have to be ‘tolerated’. Instead, they would simply be works falling outside the ownership of the initial creator.

Another and to my view messier approach is to more rigorously understand complements as generally falling under the heading of fair use. In brief I am suggesting that judges should straightforwardly declare that uses that do not substitute for the original, and instead make the original more valuable, should be considered fair use, end of story.

Today this conclusion is already occasionally reached using factors one and four of the fair use doctrine. Courts examine the purpose of the use, with particular interest in whether it is transformative and/or commercial. They also ask whether the use in question will substitute in the market.<sup>64</sup> These questions are a way of getting at the idea that a use of the copyrighted work to create a complementary good should be a fair use.

In the current case law, however, the approach is inconsistent and the results often at odds with what I have suggested. Again the *Seinfeld* case is a good example of how wrong this can go. The court decided the fair use issue by concluding that the trivia game would substitute, not for the TV show, but for a potential trivia game created by the owner:

“...Our concern is not whether the secondary use suppresses or even destroys the market for the original work or its potential derivatives, but whether the secondary use usurps or substitutes for the market of the

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<sup>64</sup> See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590-94 (1994) (discussing substitutes)..

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original work. ... The SAT [the “Seinfeld Aptitude Test,” the trivia game] substitutes for a derivative market that a television program copyright owner such as Castle Rock ‘would in general develop or license others to develop.’”<sup>65</sup>

As we discussed before, the court never figured out whether, in fact, the trivia game was actually a derivative work owned by the owner – and the statutory definition of derivative work actually puts that in doubt. But once it assumes that the trivia game is a derivative work, the court’s method means that any secondary work inescapably must be in competition with the imagined derivative.

It goes nearly without saying that the approach is a classic example of “if value then right,” whose problem is circularity. As Felix Cohen wrote in 1935 on the same problem in trademark, the “vicious circle inherent in this reasoning is plain.” The method “purports to base legal protection upon economic value,” wrote Cohen, “when, as a matter of actual fact, the economic value of a sales device depends upon the extent to which it will be legally protected.”<sup>66</sup>

The objection to my complement-centered approach is already hinted at: that if complements to original works are not well protected, the author may lose income. But it is not completely clear that that is true, based on the definition of what a complement is. There are costs incurred by ignoring the economics of complements. By definition, the complement increases the value of the original work, and in a world of high volume and low value complements, licensing of them is difficult. Today, many pure complements are already tolerated; were they clearly made legal, more might be produced.

### *Copyright No Action Policies*

A second, related idea for clarifying and limiting ‘tolerated use’ is the Copyright “No Action” policy. Here the idea is that owners of copyrighted

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<sup>65</sup> *Castle Rock Entertainment Inc.*, 150 F.3d at 145.

<sup>66</sup> Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 *Columbia L. Rev.* 809, 815 (1935).

<sup>68</sup> See Michael W. Carroll, *Fixing Fair Use*, 85 *N.C. L. REV.* 1087 (discussing the SEC analogy and making a proposal for an SEC-like ‘Fair Use Board’ which would have the power to issue No Action letters). This government-operated proposal would be more favorable to secondary authors, but would require new legislation and would be ‘non-precedential but educational’ – which would create certainty for the parties directly involved, but not for others. *See id.* at 1129. Contrast this with my proposal, where no government action is needed, and certainty would be created for all users of a particular work, but which depends on the cooperation of corporate content creators.

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works, to the degree they accept and want to encourage limited usage of their works, can declare so to the world, allowing them to focus on only the most economically significant infringements while increasing the certainty of those who might want to use the works. They can do so using a “no action policy,” which would describe those uses of the works to which the owner will not enforce.

Professor Michael Carroll had this idea before me,<sup>68</sup> and as we both point out, the idea is borrowed from the securities law context, where the Securities Exchange Commission issues “No Action Letters” in an effort to clear up any residual doubt that might hamper investment. Professor Carroll, however, recommends a government-run “Fair Use Board” to make determinations and issues letter. My idea is simply an encouragement to private entities to issue such policies.

The goal of both is the same: is to give secondary creators some clarity and certainty as to what they may and may not do related to a major commercial work. It is designed to encourage secondary creativity that is both a public benefit and adds value to the original work.

What might a No Action Policy (“NAP”) look like? I envision it as a simple posting on the web or elsewhere that details the secondary uses of a work that a secondary author can make without gaining further permission of the owner. In legal terms, the copyright no action policy is a unilateral, non-exclusive, potentially revocable license from the media owner to all members of the general public who meet its terms. The No Action Policy could be specific to a given work, or could be a blanket policy for all works owned by a given media firm.

Imagine, for example, if the NBC-Universal web site had a section called “Policy for Fans and Secondary Authors.” That section would say something like:

### **Policy on Fan Creations and other forms of secondary authorship**

NBC-Universal will not take any action against, and encourages the creation of works based on its copyrighted works that fall into the following categories:

- Non-commercial fan fiction
- Online non-commercial encyclopedias

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- Artwork depicting characters, so long as non-commercial

...

The idea obviously shares some similarities with the idea behind Creative Commons licenses, but let me make clear a few differences. First, the Creative Commons licenses are broader than what I have described here. Even the most restrictive Creative Commons licenses create a right to reproduce and distribute the work, which is a difficult thing to accept for firms to adopt whose business model depends on the control of reproduction and distribution. Additionally, Creative Commons licenses are, for good reason, designed to be irrevocable. A No Action Policy could potentially be changed or revoked to adjust to changing conditions, like a rise or fall in the profitability of the original product. Finally, Creative Commons licenses are intentionally broad, applying to the entire public without exceptions. A No Action Policy could be more tailored; for example, applying only to fan sites who agree to post certain disclaimers.

In part because of these factors, Creative Commons licenses have primarily been adopted by individual creators and small firms. They have not as of yet been attractive to large media firms that own the vast majority of commercially valuable copyrighted materials. It is these larger entities and more commercially valuable works that might use a No Action Policy, in the hopes that their application to high-profile content would reduce the uncertainty and other negative side-effects of widespread infringement and tolerated use.

### **Conclusion**

When thinking about the waves of mass casual infringement that characterize modern copyright, and the related rise in tolerated use, it helps to remember that copyright has faced challenges like this before, and will likely face more in the future. To succeed copyright must adapt and sometimes drastically. This paper has described the confusion created by our age of mass copyright infringement, described and explained how copyright holders are evolving enforcement practice to deal with it, and suggested a few new ways which courts and rights holders could clarify and simplify the situation.