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## Fair Use for Free, or Permitted-but-Paid?

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## **Fair Use For Free, or Permitted-but-Paid?**

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### *Abstract*

Fair use is an on/off switch: Either the challenged use is an infringement of copyright, or it is a fair use, which Section 107 declares “is not an infringement of copyright.” As a result, either the copyright owner can stop the use, or the user not only is dispensed from obtaining permission, but also owes no compensation for the use. The unpaid nature of fair use introduces pressures that may distort analysis, particularly of the “transformative” character of the use, and of potential market harm. Faced with a use, particularly in the context of new technologies, that a court perceives to be socially beneficial, a court may overemphasize its “transformativeness,” and correspondingly underestimate the market consequences, in order to prevent the copyright owner from frustrating the social benefit. Distortions can appear in the other direction as well: A court sensitive to the economic consequences of the unpaid use may feel obliged to downplay the public interest fostered by the use. Statutory licenses or privately negotiated accords within a statutory framework can alleviate the tension, by ensuring that uses that the legislator perceives to be in the public interest proceed free of the copyright owner’s veto, but with compensation – in other words, “Permitted but Paid.”

The United States is an outlier in the broader international landscape of copyright exceptions. The copyright laws of EU member states, Canada, Australia, and New Zealand do not include an all-purpose fair use defense (though one has been proposed in Australia), but all these states have enacted a panoply of copyright exceptions, many of which require remuneration. Thus, while our fair use doctrine confronts courts with an all-or-nothing choice, other countries have charted middle courses between barring the use and permitting its unremunerated pursuit.

In contending that some uses previously ruled “fair” should not remain unpaid, I argue that the copyright law should distinguish new distributions

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from new works, and should confine (free) “fair use” to the latter. I propose that many redistributive uses be “Permitted but Paid,” and be subject to a statutory framework for license negotiations, with compulsory licensing as a backstop. “Permitted but Paid” uses may be divided into two classes: Subsidy (socially worthy redistributions); and Market Failure (transactions costs are too high to warrant a licensing solution; or a new mode of dissemination – infant industry – is threatened by copyright owner recalcitrance). Because the inclusion of a use within the Market Failure class turns largely on facts that may evolve, these uses’ classification as “Permitted but Paid” should be subject to a phase-out, for example, a renewable sunset following a five-year review by the Copyright Office.

Where the use confers a public benefit and the choice is all-or-nothing, a fair use outcome is assured. But were “Permitted but Paid” an option, we would not be lured by a dichotomy falsely pitting authors against a perceived social good: The licensing mechanism would allow both broader dissemination and provide payment to authors. One might rejoice that there is no need to license if the use is fair. But if the use is “fair” *because* it supposedly cannot reasonably be licensed, then “Permitted but Paid” should replace fair use for free.

## Introduction

The Supreme Court in *Sony Corp. of America v. Universal City Studios*<sup>1</sup> fended a fork in the fair use road. It was the first case, apart from the Court of Claims decision a decade earlier in *Williams & Wilkins v. U.S.*,<sup>2</sup> to hold that copying an entire work for the same purpose as the original, i.e., with no additional authorship contribution, could be a fair use, and therefore “free” in both senses of the word. Prior fair use cases concerned new creativity; fair use developed in the context of what had been called “productive use”<sup>3</sup> to enable new expression, not new distribution.

In prior controversies involving new modes of dissemination, courts wary of copyright owner motives (to enforce copyright in order to put a new entrant out of business) interpreted the scope of exclusive rights

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<sup>1</sup> *Sony Corp of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)

<sup>2</sup> 487 F.2d 1345 (Ct. Cl. 1973), *aff'd by an equally divided Court*, 420 U.S. 376 (1975).

<sup>3</sup> See *Sony Corp of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 478 (1984) (Blackmun, J., dissenting) (noting that commonly recognized examples of fair use “reflect[] a common theme: each is a productive use, resulting in some added benefit to the public beyond that produced by the first autor’s work”).

narrowly to find no prima facie infringement.<sup>4</sup> By contrast, copying and retention of an entire work seem clearly to give rise to a prima facie claim of infringement.<sup>5</sup> Fair use therefore affords the remaining safety valve. The social or technological pressure that courts may sense to permit the use may contribute to the notorious unpredictability of fair use in the U.S.<sup>6</sup> Of course, any rule that privileges flexibility necessarily produces unpredictability. The greater the former, the greater also the latter.

But there may be an additional reason. Fair use is an on/off switch: all or nothing. Either the challenged use is an infringement of copyright, or it is a fair use, which section 107 declares “is not an infringement of copyright.”<sup>7</sup> As a result, either the copyright owner can stop the use,<sup>8</sup> or the user not only is dispensed from obtaining permission, but also owes no compensation for the use. The unpaid nature of fair use introduces pressures that may distort analysis, particularly of the “transformative” character of the use,<sup>9</sup> and of potential market harm. Faced with a use, particularly in the context of new technologies, that a court perceives to be socially beneficial, a court may overemphasize its “transformativeness,” and correspondingly underestimate the market

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<sup>4</sup> See, e.g., *White-Smith v. Apollo*, 209 U.S. 1, 18 (1908) (piano roll not a “copy” and therefore no violation of reproduction right); *Fortnightly Corp. v. United Artists Television*, 392 U.S. 398–402 (1968) (antenna television retransmissions are not public performances as a matter of law); *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974)–(cable retransmissions held not public performances)–

<sup>5</sup> Though one might dispute who makes the copy, e.g., *Cartoon Network LP, LLLP v. CSC Holdings*, 536 F.3d 121 (2d Cir. 2008); *Fox Broadcasting Corp. v. Dish Network L.L.C.*, 723 F.3d 1067 (9th Cir. 2013).

<sup>6</sup> Laments about the indeterminacy and unpredictability of fair use are legion, see, e.g., Paul Goldstein, *Goldstein on Copyright* §12.1 (2013); Shyamkrishna Balganesh, *Foreseeability and Copyright Incentives*, 122 *Harv. L. Rev.* 1569 (2009); James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 *Yale L. J.* 882 at 889 (2007); David Nimmer, “*Fairest of them All*” And Other Fairy Tales of Fair Use,” 66 *L. & Contemp. Probs.* 263, 287 (2003); Pierre N. Leval, *Towards a Fair Use Standard*, 103 *Harv. L. Rev.* 1105, 1106 (1990). *Contra* (fair use in practice is not so unpredictable), e.g., Matthew Sag, *Predicting Fair Use*, 73 *Ohio St. L.J.* 47 (2012); Pamela Samuelson, *Unbundling Fair Uses*, 77 *Fordham L. Rev.* 2537 (2009). Most of the examples discussed in these articles, however, concern new creativity rather than new distribution.

<sup>7</sup> 17 U.S.C. § 107 (2012) (“[T]he fair use of a copyrighted work . . . is not an infringement of copyright.”).

<sup>8</sup> But see suggestions, in *Campbell v. Acuff-Rose*, 510 U.S. 569, 578 n. 10 (1993) and *Stewart v. Abend*, 863 F.2d 1465, 1479 (9th Cir. 1988), *aff’d*, 495 U.S. 207 (1990), that the appropriate remedy may be monetary, in effect, judicially imposed compulsory licenses; the defendants in those cases, however, produced new works of authorship, they did not merely redistribute the underlying work as is.

<sup>9</sup> Recent fair use case law suggests that once the use is deemed “transformative” it becomes presumptively “fair.” See *infra* notes 53–59 and accompanying text (discussing domination of “transformative” finding in fair use analysis); see also, e.g., *Neri v. Monroe* 11-cv-429-slc (W.D. Wisc. Feb. 26, 2014).

consequences, in order to prevent the copyright owner from frustrating the social benefit.<sup>10</sup> Distortions can appear in the other direction as well: A court sensitive to the economic consequences of the unpaid use may feel obliged to downplay the public interest fostered by the use.<sup>11</sup> Statutory licenses or privately-negotiated accords within a statutory framework can alleviate the tension, by ensuring that uses which the legislator perceives to be in the public interest proceed free of the copyright owner's veto, but with compensation.

In contending that some uses previously ruled "fair" should not remain unpaid, I argue that the copyright law should distinguish new distributions from new works, and should confine (free) "fair use" to the latter. (I deliberately avoid the term "transformative," which I believe has obscured analysis ever since courts began to attach that label to "uses" unmoored from "works.") Exploitations within the former group would fall into a new category, "Permitted but Paid," or would be ruled infringing, and therefore left to resolution in the marketplace.

This project does not propose any change to the analysis of fair use cases involving new creativity.<sup>12</sup> Analytical difficulties may abound there as well (for example, how much copying is too much; where lies the line between a fair use parody and an infringing derivative work), but they arise in the strongest normative universe for free use.<sup>13</sup> The situations I intend to address often come down to assessing whether a new use should be exempted from copyright liability in order to enable a new business model, or to ensure relatively inexpensive dissemination in furtherance of socially worthy goals such as non-profit education. The normative claims underlying redistributive uses are not based on authorship, but rather on "information policy," a notion which may cover both the interests of

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<sup>10</sup> E.g., *Perfect 10, Inc. v. Amazon.com, Inc.* 508 F.3d 1146 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003); *Perfect 10 v. Yandex*, 2013 WL 1899851 (N.D. Cal. 2013)

<sup>11</sup> *Perfect 10, Inc. v. Google, Inc.*, 416 F.Supp.2d 828 (C.D.Cal. 2006), rev'd in part, *Amazon*, 508 F.3d 1146

<sup>12</sup> Although, were I reforming what I'll call "true" fair use, I would make authorship attribution a factor in assessing---if not a prerequisite to---fair use. Cf. Berne Convention for the protection of literary and artistic works, arts. 10 and 10bis (requiring authorship attribution for quotation and similar exceptions)

<sup>13</sup> But cf. Hon. J. Alex Kozinski & Christopher Newman, What's So Fair About Fair Use? The 1999 Donald C. Brace Memorial Lecture, 46 *J. Copyright Soc'y* 512 (1999) (urging that the derivative works right be replaced by compulsory licensing).

readers in receiving works of authorship<sup>14</sup> and of new distributors in purveying them.

“Permitted but Paid” uses may be divided into two classes: Subsidy (socially worthy redistributions); and Market Failure (transactions costs are too high to warrant a licensing solution; or a new mode of dissemination – infant industry – is threatened by copyright owner recalcitrance). Because the latter class turns largely on facts which may evolve (the industry may grow up; licensing mechanisms may evolve), these uses’ classification as “Permitted but Paid” should be subject to a phase-out,<sup>15</sup> for example, a renewable sunset following a five-year review by the Copyright Office.

I recognize that my categories present a variety of line-drawing challenges. First, some would dispute my initial distinction between new authorship (true) fair use, and Subsidy or Market Failure “fair” use.<sup>16</sup> That dispute probably derives from different normative visions of the value of creating new expression as opposed to receiving or reiterating extant expression. As a result, I note the disagreement, but move on. Second, the Subsidy and Market Failure categories may overlap as transaction costs may also characterize some of the kinds of uses I have characterized as subsidies, and social benefit may buttress the appeal of the transactions cost justification for a permitted use. Nonetheless, I believe the categories are distinct, because there may be social policy reasons to continue to subsidize a use even if the transactions cost problem could be overcome. Finally, there is another boundary issue: Permitted-but-paid must be cabined so that it avoids the slippery slide into two opposite extremes. On the one hand, my proposal should not lead to turning all of copyright law

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<sup>14</sup> See, e.g., Jessica Litman, *Readers’ Copyright*, 58 *J. Copyright Soc’y* 325 (2011); Wendy Gordon, *Fair Use Markets: On Weighing Potential License Fees*, 79 *Geo. Wash. L. Rev.* 1814 (2011).

<sup>15</sup> Thanks to Lital Helman for inspiring this solution. Sunset provisions are not unknown in U.S. Copyright law, see, e.g., See, e.g., 17 U.S.C. §§ 119, 601.

One might envision a third class of “fair use for others”: copying, (possibly intermediate copying) to enable others to engage in creative uses of others’ works. But the claims of for-profit fair use enablers may often fall in the class of market failure permitted-but-paid uses, particularly if the enablers are compiling large databases of copyrighted works in order to facilitate, for example, data mining. As a general proposition, courts have not embraced profit-making “fair use for others.” See, e.g., *Princeton Univ. Press v. Michigan Document Servs.*, 99 F.3d 1381 (6th Cir. 1996); *Basic Books, Inc. v. Kinko’s Graphics Corp.*, 758 F. Supp. 1522, 1547 (rejecting fair use defense for for-profit maker of university coursepacks).

<sup>16</sup> See, e.g., Rebecca Tushnet, *Copy This Essay: How Fair Use Doctrine Harms Free Speech and How Copying Serves It*, 114 *Yale L.J.* 535 (2004); Wendy Gordon, *Fair Use as Market Failure*, 82 *Colum. L. Rev.* 1600 (1982).

into a “liability rule”; on the other, it should not promote the conclusion that any use that can be paid for should be compensated (if not controlled).

The study proceeds as follows. I first examine the evolution of the two classes of new distribution fair use cases. As examples of social subsidies, I consider the treatment of educational copying from the legislative history of the 1976 Copyright Act through *Cambridge University Press v Becker* (the Georgia State online “reserves” controversy),<sup>17</sup> and then turn to library copying and the *Hathi Trust* case. Market failure cases encompass a range of examples of mass use of copyright works, from private copying to mass digitization (e.g. Google Books), to search engines.

The next part of this study looks to Europe, Australia, New Zealand and Canada. These copyright regimes have typically provided compensation schemes for many of the non-creative uses surveyed here. The United Kingdom, Australia and New Zealand have also established or are considering instituting “license it or lose it” systems to promote socially beneficial redistributions of copyrighted works. Some European countries have, moreover, addressed market failure problems through “extended collective licensing” systems that merge features of statutory licenses and private ordering.

Finally, I consider how to implement “Permitted but Paid” in the U.S. As an initial matter, I inquire whether, subsequent to the Supreme Court’s decision in *eBay v. MercExchange*,<sup>18</sup> the tightened conditions for issuing preliminary and permanent injunctions are resulting in a *de facto* Permitted but Paid regime. If the usual panoply of copyright remedies nonetheless largely remains available, can the shadow of injunctive relief stimulate private ordering? Can judges provide the impetus to private ordering by making fair use the backstop to a “license it or lose it” regime? Or is legislation needed to enable private ordering, for example, by lessening antitrust constraints? If legislation is a necessary adjunct to private ordering, who will set the backdrop royalty rates, and how will the

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<sup>17</sup> Another type of non-creative use of entire works (not analyzed here) is evidentiary use, for example submission of copies of third-party works in court proceedings, see, e.g., *Scott v. WorldStarHipHop, Inc.*, 2011 WL 5082410 (S.D.N.Y. Oct. 25, 2011); *Shell v. City of Radford, Virginia*, 351 F. Supp. 2d 510, 513 (W.D. Va. 2005), or as evidence of prior art in patent applications, see, *AIP v Schwegman, Lundberg & Woessner* (Magistrate, D. Minn 2013). **NOTE TO BTLJ EDITORS: An 11<sup>th</sup> Cir decision in the Georgia State case is pending, and may require revising the relevant parts of this article.**

<sup>18</sup> 547 U.S. 388 (2006)



rates be determined? I suggest that the Copyright Royalty Board might assume that task of rate-setting if the parties cannot agree, but that it should apply the method of last best offer arbitration (“baseball arbitration”) to arrive at the rate.

## I The evolution of redistribution fair use

U.S. copyright law has long recognized fair use as an exception favoring new creativity.<sup>19</sup> Justice Story’s 1841 decision in *Folsom v. Marsh*,<sup>20</sup> to which many assign the doctrine’s ancestor attribution,<sup>21</sup> refined the British rule of “fair abridgement”<sup>22</sup> to emphasize the authorship contributions of the alleged infringer, as well as their impact on the market for the copied work. Justice Story distinguished between “real, substantial condensation of the materials, and intellectual labor and judgment bestowed thereon” and “merely the facile use of the scissors; or extracts of the essential parts, constituting the chief value of the original work.”<sup>23</sup> The ensuing century and a half of fair use cases almost

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<sup>19</sup> The doctrinal roots of the fair use exception for new creativity can be traced back to the 1841 Supreme Court opinion in *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841), discussed *infra* notes 20--23 and accompanying text. “New creativity fair use” cases still outnumber “redistribution fair use” cases on today’s dockets. For an illustrative but far from exhaustive list of modern “new creativity fair use” cases, see, for example, *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994) (deciding whether commercial parody of Roy Orbison’s song “Oh, Pretty Woman” by 2 Live Crew was fair use); *Cariou v. Prince*, 714 F.3d 694 (2d Cir. 2013) (appropriation art); *Bill Graham Archives v. Dorling Kindersley Limited*, 448 F.3d 605 (2d Cir. 2006) (reproduction of seven posters in biography of the band the Grateful Dead); *Blanch v. Koons*, 467 F.3d 244 (2d Cir. 2006) (painting that adapted images from photograph); *Leibovitz v. Paramount Pictures Corp.*, 137 F.3d 109 (2d Cir. 1998) (parody of Vanity Fair cover photograph) .

<sup>20</sup> 9 F. Cas. 342 (C.C.D. Mass. 1841).

<sup>21</sup> See, e.g., *Campbell*, 510 U.S. at 575. See generally, R. Anthony Reese, *The Story of Folsom v. Marsh: Distinguishing Between Infringing and Legitimate Uses*, in *INTELLECTUAL PROPERTY STORIES*, at 259 (Rochelle Cooper Dreyfuss & Jane C. Ginsburg, eds. 2005).

<sup>22</sup> Epitomized in decisions such as *Gyles v. Wilcox*, 26 Eng. Rep. 489, 2 Atk. 141 (1740) and *Sayre v Moore*, 102 Eng. Rep. 139 n.(b), 1 East 361 n.(b) (1785). On the role of “fair abridgement” in promoting new creativity, see, e.g., Isabella Alexander, *Copyright and the Public Interest in the Nineteenth Century 170—72* (Oxford: Hart Publishing, 2010). On fair abridgement as a precursor to fair use, see, e.g., Matthew Sag, *The Prehistory of Fair Use*, 76 *Brook. L. Rev.* 1371 (2011)

<sup>23</sup> 9 F.Cas. at 345. Although in that case Judge Story found the use of the work (George Washington’s letters) to be infringing, notably because the letters constituted over 1/3 of defendant’s work and “impart[ed] to it . . . its essential value,” *id.* at 349, he nonetheless praised the defendant’s objective of producing works for school libraries, and expressed the hope that the parties might come to an “amicable settlement,” *id.* *Folsom v. Marsh* might thus be seen as a precursor to the social subsidy variant of Permitted but Paid; thanks for this point to Eva Subotnick.

exclusively debated the nature of the second author's additions or alterations, pitted against the first author or copyright owner's prospects for exploiting the work.<sup>24</sup> The caselaw thus calibrated the basic moving parts of the traditional fair use doctrine: authorship, public benefit, economic impact. The progress of learning<sup>25</sup> advances when the law allows follow-on authors to bestow their intellectual labor and judgment in reworking selections from a prior work, without prejudicing the profits or prospects of that work.

Redistribution "fair uses" are different. They do not directly produce new works. (I recognize that consumption-directed uses may enrich the end user's knowledge and reflections in ways that ultimately inform some subsequent creative endeavor,<sup>26</sup> but the same might be said of everything, from works of authorship to cups of coffee, that becomes an "input" in a prospective author's creative process.) What motivations therefore underlie non authorship-based exceptions? The caselaw and legislative history of the 1976 Copyright Act indicate two broad impetuses. First, the category I have, perhaps provocatively, called "subsidy,"<sup>27</sup> in which redistributive copying for non-commercial purposes (generally by educational institutions or libraries) receives a free pass (subject to a variety of limitations). (I recognize that those who reject the characterization of copyright as a "property right" will similarly contest the proposition that fair use effectively requires authors to underwrite free uses in the public interest.) Second, and primarily in the case of redistributive uses developed by new (generally commercial) market entrants, "market failure" may justify both those uses that are as a practical matter insusceptible to licensing, notably because of their volume, and (more controversially) those whose licensing may be possible

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<sup>24</sup> See, e.g., cases cited *supra*, note 19. See also *Columbia Broadcasting Inc. v. Loew's, Inc.*, 356 U.S. 43 (1958); *Benny v. Loew's Inc.*, 239 F.2d 532 (9th Cir. 1956); *Shapiro, Bernstein & Co. v. P.F. Collier & Son Co.*, 26 U.S.P.Q. 40 (S.D.N.Y. 1934). For an analysis of courts' application of fair use under the 1909 Copyright Act, see Alan Latman, Study No. 14: Fair Use of Copyrighted Works, *in* II *Studies on Copyright: Arthur Fisher Memorial Edition* 781, 783—93 (Copyright Soc'y of U.S.A. eds.).

<sup>25</sup> See U.S. Const., Art. I. sec. 8, cl. 8 ("Congress shall have power . . . to promote the progress of science . . ."); *Rosemont Ents. v. Random House* 366 F.2d 303, 307—311 (1966) (applying fair use when enforcement of copyright, by rightowner who sought to suppress information, would frustrate the progress of science).

<sup>26</sup> Thanks to Wendy Gordon for this observation.

<sup>27</sup> But not as provocatively as, for example, Rob Merges, who has suggested that fair use across the board obliges authors to subsidize user-beneficiaries. See Robert Merges, *The End of Friction? Property Rights In The "Newtonian" World Of Online Commerce*, 12 *Berkeley Tech. L.J.* 115, 115--16 (1997).

but whose licensors are unreasonably intractable.<sup>28</sup> Perhaps not surprisingly, courts do not generally announce the latter basis, since it both implies second-guessing of business decisions and ascribes sinister motivations to the refusal to license. As a result, those who invoke this justification do not often succeed.<sup>29</sup> Nonetheless, I believe it underlies some fair use decisions, notably the Ninth Circuit’s recent holding in *DISH Networks*,<sup>30</sup> whose fair use analysis (like the cursory and result-oriented fair use analysis in the Supreme Court’s *Sony* decision<sup>31</sup> on which it relies) is otherwise unconvincing, at best.

The following discussion considers some examples of the two kinds of redistributive “fair uses.”

- A. Social subsidy fair use
  - 1. Non profit educational uses
    - a. photocopying and the 1976 Act

Section 107(1) identifies “nonprofit educational purposes” as a use whose “nature and purpose” favor a finding of fair use.<sup>32</sup> The preamble to section 107 lists among the uses which in general exemplify fair use (but which courts must in each case examine) “teaching (including multiple copies for classroom use).”<sup>33</sup> Thus, as the Supreme Court has recognized,

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<sup>28</sup> A great deal has been written on “market failure” fair use since Wendy Gordon’s seminal 1982 article in the *Columbia Law Review*. See, e.g., Jennifer M. Urban, *How Fair Use Can Solve the Orphan Works Problem*, 27 *Berkeley Tech. L.J.* 1379 (2012); Edward Lee, *Technological Fair Use*, 83 *S. Cal. L. Rev.* 797 (2010); Alan L. Durham, *Consumer Modification of Copyrighted Works*, 81 *Ind. L.J.* 851 (2006); David M. Driesen & Shubha Ghosh, *The Functions of Transaction Costs: Rethinking Transaction Cost Minimization in a World of Friction*, 47 *Ariz. L. Rev.* 61 (2005); Maureen A. O’Rourke, *Towards a Doctrine of Fair Use in Patent Law*, 100 *Colum. L. Rev.* 1177 (2000); Tom W. Bell, *Fair Use vs. Fared Use: The Impact of Automated Rights Management on Copyright’s Fair Use Doctrine*, 76 *N.C. L. Rev.* 557 (1998); Julie E. Cohen, *Lochner in Cyberspace: The New Economic Orthodoxy of Rights Management*, 97 *Mich. L. Rev.* 462 (1998); Robert Merges, *The End of Friction*, *supra*; Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 106 *Yale L.J.* 283 (1996).

<sup>29</sup> See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F. Supp. 2d 349, 352 (S.D.N.Y. 2000) (rejecting defendant’s contention that MP3 storage product was fair use because plaintiff failed to show that licensing in this area was not ““traditional, reasonable, or likely to be developed”” (quoting *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 930 (2d Cir. 1994)). Cf. *Texaco*, 60 F.3d at 930--31 (rejecting market failure argument on grounds that market failure no longer existed due to emerging licensing market).

<sup>30</sup> *Fox Broad. Co., Inc. v. Dish Network L.L.C.*, 723 F.3d 1067 (9th Cir. 2013).

<sup>31</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

<sup>32</sup> 17 U.S.C. § 107 (2012).

<sup>33</sup> *Id.*

the 1976 Act specifies one form of use that does not involve new creativity,<sup>34</sup> though the contours of this redistributive use remain undefined, and the inclusion of a use in the preamble does not confer a presumption of “fair-ness”. Educational photocopying was in fact one of the most contested issues during the legislative process leading up to the 1976 Act.<sup>35</sup> The “Agreement on Guidelines for Classroom Copying in Not-for-Profit Educational Institutions With Respect to Books and Periodicals”<sup>36</sup> that emerged from this process offers some indication of Congress’ intention regarding the scope of fair use.

I do not wish to overemphasize the inferences to draw from the Guidelines, in part because they are highly contested,<sup>37</sup> and because by their own terms, they identify a minimum threshold, in effect a safe harbor, thus leaving open the possibility of more extensive permissible free use.<sup>38</sup> But several features of the Guidelines suggest that they focus on the acts of individual teachers. For example, in addition to a “brevity” component, the Guidelines specify “spontaneity” (“the inspiration and decision to use the work and the moment of its use for maximum teaching effectiveness are so close in time that it would be unreasonable to expect a timely reply to a request for permission”); they limit multiple copying to no more than nine instances during a term, and perhaps most significantly, with respect to the intended beneficiary, “the copying of the material is for only one course in the school in which the copies are made.” One may therefore query whether systematic copying, particularly of substantial

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<sup>34</sup> See *Campbell v. Acuff-Rose*, 510 U.S. at 579, n.11. (“The obvious statutory exception to this focus on transformative uses is the straight reproduction of multiple copies for classroom distribution.”)

<sup>35</sup> See, e.g., Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 *Cornell L. Rev.* 857, 865-67 (1987).

<sup>36</sup> H.R. Rep. No. 1476 at 68-71, 94th Cong., 2d Sess. (1976).

<sup>37</sup> Compare, *Princeton Univ. Press v. Michigan Document Servs., Inc.*, 99 F.3d 1381, 1390-91 (6th Cir. 1996) (Guidelines provide useful guidance), with *Cambridge U. Press v. Becker*, 863 F. Supp. 2d 1190, 1227-29 (N.D. Ga. 2012) (criticizing Guidelines’ legitimacy). For academic commentary critical of the Guidelines, see, e.g., Jennifer Rothman, *Reconsidering Best Practices In the Context of Fair Use and Copyright Law*, 57 *J. COPYRIGHT SOC’Y* 371 (2010); Litman, *supra* note 11; Kenneth D. Crews, *The Law of Fair Use and the Illusion of Fair Use Guidelines*, 62 *OHIO ST. L.J.* 599 (2001); Gregory K. Klingsporn, *CONFU And the Future of Fair Use Guidelines*, 23 *COLUM. J. L. & ARTS* 101 (1999); Carol Silberberg, *Note, Preserving Educational Fair Use in the Twenty-First Century* 74 *S. CAL. L. REV.* 617 (2001)

<sup>38</sup> H.R. REP. No. 94-1476 at 68 (“[T]he following statement of guidelines is not intended to limit the types of copying permitted under the standards of fair use under judicial decision and which are stated in Section 107 of the Copyright Revision Bill. There may be instances in which copying which does not fall within the guidelines stated below may nonetheless be permitted under the criteria of fair use.”)

course materials,<sup>39</sup> by the educational institution, falls so far outside the Guidelines' ambit as to exceed even the Guidelines' undefined additional breathing space.

By the same token, the report of the Senate Judiciary Committee casts doubt on the application of fair use to institutional educational copying. The Committee surmised: "The fair use doctrine in the case of classroom copying would apply primarily to the situation of a teacher who, acting individually and at his own volition, makes one or more copies for temporary use by himself or his pupils in the classroom. A different result is indicated where the copying was done by the educational institution, school system, or larger unit or where copying was required or suggested by the school administration, either in special instances or as part of a general plan."<sup>40</sup>

Educational institutions, however, have not been the defendants in most of the cases involving educational copying. Although publishers sued New York University in the early 1980s over its systematic preparation of coursepacks, the case settled.<sup>41</sup> The other photocopying decisions involved commercial actors,<sup>42</sup> thus considerably attenuating the "public benefit" conferred by the unauthorized preparation of coursepacks. A decision rendered shortly after the enactment of the 1976 Act, *Encyclopedia Britannica v Crooks*,<sup>43</sup> however, did involve educational copying (videotaping, not photocopying) by institutional defendants, but the facts of the case did not favor the application of fair use to institutional-level non-profit educational copying. There, the producers of educational videos charged that defendant school districts comprising over 100 schools videotaped television broadcasts of their works, built a library of these videotaped works, and made copies of these tapes for classroom use. Because educational institutions constituted the principal market for the plaintiffs' works, the school districts' systematic copying substituted

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<sup>39</sup> The Guidelines also state: "Copying shall not be used to create or to replace or substitute for anthologies, compilations or collective works."

<sup>40</sup> S. Rep. No. 94-473, at 63 (1976).

<sup>41</sup> The case, Addison-Wesley Publishing Co. v. New York University, settled "on terms which included the incorporation of the Classroom Guidelines into the University's official photocopying policies." Bernard Zidar, Comment, Fair Use and the Code of the Schoolyard: Can Copyshops Compile Coursepacks Consistent with Copyright?, 46 Emory L.J. 1363, 1377 (1997) (outlining history of Addison and other early photocopying cases).

<sup>42</sup> See *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381, 1389 (6th Cir. 1996); *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 922 (2d. Cir. 1994); *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F.Supp. 1522, 1532 (S.D.N.Y. 1991).

<sup>43</sup> 542 F. Supp. 1156 (W.D.N.Y. 1982).

for purchases of the programs. The economic impact exceeded reasonable fair use tolerance even for publicly beneficial goals.

More recently, however, a district court has found fair use in a case involving institutional-level creation of “electronic reserves,” arguably the digital era equivalent of photocopied coursepacks.

b. Digital Copying

In *Cambridge University Press v Becker*,<sup>44</sup> three academic publishers contended that Georgia State University systematically infringed their copyrights by adopting a policy that permitted faculty members to make excerpts from the plaintiffs’ works as electronic course reserves through the university library’s website. The university’s 2009 Copyright Policy allegedly “led to continuing abuse of the fair use privilege” by “mak[ing] professors responsible for determining whether a particular use is a fair use” and requiring the professor to complete a “fair use checklist” to do so. The plaintiffs identified 75 instances of alleged infringement during the three full semesters after the Copyright Policy was adopted. Faculty members had assigned the excerpts at issue as supplemental (but often required) reading in graduate or upper-level undergraduate courses in language or social science. The books from which the excerpts came were generally not textbooks, but rather single-author monographs or edited collections of multiple chapters by a variety of authors. The “great majority” of the excerpts at issue constituted “a chapter or less from a multi-chapter book.” The average copied excerpt constituted about 10% of the book from which it was copied “(though some were considerably more and some were considerably less)”. Excerpts placed on electronic reserve were available by password only to students enrolled in the course, and only during the semester in which the student was enrolled, but students could create permanent retention copies by downloading or printing the reserve readings for their courses.

Following a bench trial, the court found most of the copying to be fair use. Evaluating “the purpose and the character of the use,” the court

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<sup>44</sup> 863 F. Supp. 2d 1190, 1201 (N.D. Ga. 2012). While I have classified coursepacks and electronic reserves as forms of reiterative copying, one might contend that the selection of excerpts to copy results in a kind of anthology, which might be considered not merely a new use but a new work. That there may be some authorship component to the selection of materials to copy does not compel such a recharacterization. The Georgia State court did not consider the copying at issue to be “transformative”. *Id.* at 1232 (“Taking into account the fact that this case involves only mirror-image, nontransformative uses . . .”).

concluded that the first factor favored fair use, because the copying fulfilled the section 107 preamble-listed purposes of teaching students and for scholarship and was performed by a nonprofit educational institution “for strictly nonprofit educational purposes.” The court distinguished the photocopy cases, whose defendants were for-profit entities. Pointing to the statute’s explicit inclusion of classroom copies, the court rejected the plaintiffs’ argument that the non-creative nature of the copying weighed against fair use. Applying the second factor, the court deemed the works primarily informational, hence more subject to fair use. The final two factors furnished the most significant, and debatable, aspects of the court’s analysis.

With respect to the third factor, the “amount and substantiality of the portion used, in relation to the copyrighted work as a whole,” the court attributed little significance to the Classroom Guidelines. Since the Guidelines’ safe harbor set the minimum standards of educational fair use, not the maximum, the court concluded that the outcome of this factor’s analysis did not turn on meeting the Guidelines requirements. Turning instead to the text of the third factor, the court addressed the question of what constituted “the copyrighted work as a whole,” in relation to which the amount and substantiality of the defendant’s copying should be evaluated. Although the publishers urged that each chapter of their copyrighted books should be seen as a separate work, so that copying an entire chapter would constitute copying the entire work, the court ruled that the argument was not timely raised. Moreover, conflating copyright ownership with the identification of the “work,” the court indicated that since the publishers had obtained copyright assignments from the authors of the separate contributions to edited volumes, those contributions should not be assessed separately for purposes of fair use analysis, lest the publishers “choke out nonprofit educational use of the chapter as a fair use.” The court “w[ould] not allow this to happen,”<sup>45</sup> and therefore analyzed the substantiality of the copying with respect to the book as a whole.<sup>46</sup>

Of course, an amount quantitatively insubstantial with respect to the book as a whole could be qualitatively substantial, and therefore weigh against fair use, but the court determined that because the books were divided into distinct topics, the copied excerpts lacked “a dominant

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<sup>45</sup> 863 F. Supp. 2d at 1234.

<sup>46</sup> By contrast, in *Texaco*, the court addressed not only the journal issue as a whole, but treated each article as a “work” for purposes of the analyses of substantiality and market impact.

relationship to the substance of the work as a whole.”<sup>47</sup> It is not clear what this standard means, but it appears to make qualitative insubstantiality an inevitable consequence of addressing more than one topic per book. Moreover,

it is relevant that selection of a whole chapter of a book (either from a typical, single author chapter book or from an edited book) likely will serve a more valuable educational purpose than an excerpt containing a few isolated paragraphs. Professors want students to absorb ideas and useful, context-based information. This can be accomplished better through chapter assignments than through truncated paragraphs. However, the selected excerpt must fill a demonstrated, legitimate purpose in the course curriculum and must be narrowly tailored to accomplish that purpose.<sup>48</sup>

Thus, more copying is called for rather than less, especially since a court is unlikely to second-guess the instructor’s determination – by virtue of assigning the excerpt – that the excerpt “fills a legitimate purpose in the course curriculum . . .” The same consideration that the publishers signaled as evidence of the qualitative substantiality of the excerpt instead bolsters the defense that the institution took no more than appropriate to the pedagogical task.

In any event, the court’s treatment of the fourth factor, the effect on the potential market for or value of the work, arguably rendered irrelevant its analysis of the amount and substantiality of the copying, apart from its determination that the copyrighted “works” at issue were the whole books in which the copied excerpts appeared. The court viewed the danger of market substitution as the principal concern under this factor, and set the substitution threshold at 10% of the book as a whole. The court in effect created a bright-line presumption in favor of fair use if the defendant copied no more than 10% of the pages of a book containing fewer than ten chapters, or up to but not more than one chapter of a book with ten or more chapters.

Whatever the merits of the 10% free pass, the court’s treatment of excerpts in excess of 10% suggests a useful approach of broader potential application, as we will see in subsequent sections of this article. The court acknowledged the significance of the market for licensing excerpts (even if the full book supplies the reference point for the quantum of copying), and the deleterious impact on the value of the work were licensing fees to

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<sup>47</sup> 863 F. Supp. 2d at 1233.

<sup>48</sup> *Id.*



go unpaid. But the court concluded that “[f]or loss of potential license revenue to cut against fair use, the evidence must show that licenses for excerpts of the works at issue are easily accessible, reasonably priced, and that they offered excerpts in a format which is reasonably convenient for users.”<sup>49</sup> For many of the works at issue, the court concluded that the record did not establish that licenses for digital copies of the works were available in 2009 when the defendants put the excerpts at issue on electronic reserve. Where “digital permissions were not shown to be available,” the court ruled that the defendants’ use “caused no actual or potential damage to the value of the books’ copyrights.”<sup>50</sup> Where digital permissions were available, by contrast, the court ruled that the fourth factor would weigh heavily against fair use.<sup>51</sup> In other words, the court instituted a “license it, or lose it” system. Or, more accurately, the court gave ten percent off the top to the educational institution (this is the social welfare subsidy) and then imposed a solution akin to a compulsory license. Except that where compulsory licenses in copyright have traditionally been creatures of legislation, with government-set rates, here the court in effect compelled the copyright owners to license, lest the use be allowed for free, but left the rate-setting to the parties, subject, perhaps, to judicial verification that the licenses “are easily accessible [and] reasonably priced.” We will return to “license it, or lose it” when we address copyright exceptions for redistributive uses in other countries, and in our proposals for U.S. copyright reform.

## 2. Library uses

Library uses present another instance of social subsidy fair use. Unlike educational photocopying (whose partial “Guidelines” appear in an appendix to the report of the House Judiciary Committee), specified types of library copying received explicit statutory coverage in section 108 of the 1976 Act. Section 108, however, was drafted with such specificity that, despite some updating in 1998, it has failed to keep pace with digital technologies.<sup>52</sup> Section 108 nonetheless points to further flexibility by

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<sup>49</sup> Id. at 1237.

<sup>50</sup> Id. at 1238.

<sup>51</sup> The court accordingly found five instances of use it deemed not “fair.” See also *Cambridge University Press v. Becker*, 2012 U.S. Dist. LEXIS 123154 (N.D. Ga. August 10, 2012) (relief for five instances of copyright infringement).

<sup>52</sup> See, e.g., Library of Congress, *The Section 108 Study Group Report*, March 2008, at i (“Due to the rapid pace of technological and social change, the law embodies some now-outmoded assumptions about technology, behavior, professional practices, and business models.”).

cautioning that “Nothing in this section . . . in any way affects the rights of fair use as provided by section 107 . . . .”<sup>53</sup>

*Authors Guild v. Hathi Trust*,<sup>54</sup> tested the relationship between the two provisions. The district court announced a broad fair use privilege to create and store digital copies of entire books for purposes of enabling access to the contents of books by the visually impaired, and to enable “data mining” of full text. The district court rejected the authors’ contention that the constraints contained within section 108, notably disallowing “systematic” reproductions, limited the scope of fair use. Although the *Hathi Trust* libraries were engaged in further copying of the full scans of their collections (digitized by Google) the court observed that “the wholesale copying of works” could be permissible “where the use and purpose for the copies was clearly distinguishable from those of the original.”<sup>55</sup> The data mining uses did not generate any output of copyrightable expression; the print-disabled formed an audience distinct from the readers to whom the copyright owners marketed the books: “[P]rovision of access for them was not the intended use of the original work (enjoyment and use by sighted persons) and this use is transformative.”<sup>56</sup> (The latter rationale comes perilously close to suggesting that anytime a third party develops a new audience for the work, distribution of the work to that audience is “transformative.”)

The first factor finding of “transformative use” influenced the court’s analysis of the fourth factor, for a “transformative use” fills a “transformative market,” which, at least for non-commercial uses, is presumed not to substitute for the work’s usual markets.<sup>57</sup> The court gave short shrift to the authors’ contended economic harm from lost licensing opportunities. First, and perhaps circularly, if the market is “transformative,” there is no cognizable harm because impairment to a transformative, as opposed to a traditional, market doesn’t count. Second, the costs of creating a licensing market are too great to permit developing such a market. Third, there is no evidence that a collective licensing

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<sup>53</sup> 17 U.S.C. § 108(f)(4).

<sup>54</sup> 902 F.Supp.2d 445 (S.D.N.Y. 2012)

<sup>55</sup> Id. at 460.

<sup>56</sup> Id at 461.

<sup>57</sup> As many commentators have recognized, the first and fourth factors have long dominated judicial application of section 107. Already the essential factor one inquiry, “transformative use” now seems to become transformed (distorted) into a determinative factor four assessment as well. Perhaps, to use Barton Beebe’s term, a factor one finding of “transformative use” now results in “stampeding” all the other factors, including, and especially, the fourth.

solution (which would reduce the cost of implementing a licensing program) is in fact in prospect.

A perceived social imperative may well underlie the court's rather cavalier treatment of the potential licensing market. Concluding its fair use analysis, the court declared, "I cannot imagine a definition of fair use that would not encompass the transformative uses made by Defendants' M[ass] D[igitization] P[roject] and would require that I terminate this invaluable contribution to the progress of science and cultivation of the arts that at the same time effectuates the ideals espoused by the A[mericans with] D[isabilities] A[ct]."<sup>58</sup> Note the court's assumption that were the fair use defense to fail, the libraries' socially beneficial initiatives would have to be "terminated." If the choice is all-or-nothing, a fair use outcome is assured. But, as the *Georgia State* ruling suggests, the *Hathi Trust* court may have embraced a false dichotomy. Admittedly, in *Georgia State*, a licensing mechanism, through the Copyright Clearance Center, already existed, but it was not adequate to the task at the time the electronic reserves program began. The Georgia federal court's ruling surely will provide the impetus to improve the licensing program so that it does respond to the demand. *Hathi Trust* does not even give licensing a chance. One might rejoin that there is no need to license if the use is fair.<sup>59</sup> But if the use is fair *because* it supposedly can't reasonably be licensed, then nipping licensing in the bud deprives the author of compensation and gives the user an unwarranted free pass.<sup>60</sup> This brings us to the second class of redistributive uses, characterized not by social benefit, but by "market failure".

#### B. Market failure/new market fair use

"Market failure" may mean many things to many courts and commentators. I am here using it in the sense proposed by Wendy Gordon as "market malfunction" rather than what she calls "inherent limitation," which I understand to import a normative gloss: a market *could* function,

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<sup>58</sup> Id. at 465.

<sup>59</sup> See, e.g., Gordon, *supra* note 14, at 1824-25; Mark Lemley, Should a Licensing Market Require Licensing?, 70 LAW & CONTEMP. PROBS. 185 (2007); Matthew Africa, The Misuse of Licensing Evidence in Fair Use Analysis: New Technologies, New Markets, and the Courts, 88 CAL. L. REV. 1145, 1148-49 (2000). This objection, however, primarily arises in the context of new works rather than new distributions.

<sup>60</sup> There may, however, be other justifications, such as solicitude for the visually-impaired, for allowing the use for free.

but policy reasons make such markets undesirable.<sup>61</sup> Large-scale non-creative uses, particularly in the digital environment, may make the cost of seeking and paying for authorization prohibitive for the user, while yielding little advantage for the copyright owner. The public interest (here equated, perhaps abusively, with that of the user) in the new form of distribution thus would be frustrated, with insufficient countervailing benefit to creators (were there such a benefit, it would serve the long-term interest of the public in ensuring that we “have a supply of good books”<sup>62</sup>). If “market failure” primarily concerns practical inability to develop a paying market, a variant on the theme of “market malfunction” is unwillingness to develop the market. While the exclusive rights copyright vests in authors normally entitle them to decide whether and how to exploit their works, courts have on occasion rejected infringement claims in order to allow the new market to emerge,<sup>63</sup> or in order to counter perceived copyright owner abuse.<sup>64</sup> (The two variants, moreover, are not

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<sup>61</sup> See Wendy Gordon, Excuse and Justification in the Law of Fair Use: Transaction Costs Have Always Been Only Part of the Story, 50 J. COPYRIGHT SOC'Y 149, 151-53 (2003). *Campbell v. Acuff-Rose*, 510 U.S. 569 (1993), is a good example of an “inherent limitation”: when the Court announced there was “the law recognizes no derivative market for critical works, including parody,” *id.* at 592, it was making a normative, not an empirical, declaration.

<sup>62</sup> Macaulay, A Speech delivered in the House of Commons on the 5th of February, 1841, Parliamentary Debates on the Copyright Bill, Hansard, 3rd Ser., 56 (1841): 341-60 (5 Feb.), available at Primary Sources on Copyright (1450-1900), [http://copy.law.cam.ac.uk/cam/tools/request/showRecord.php?id=record\\_uk\\_1841c](http://copy.law.cam.ac.uk/cam/tools/request/showRecord.php?id=record_uk_1841c). Many commentators cite Macaulay’s characterization of copyright as an “exceedingly bad” “tax on readers for the purpose of giving a bounty to writers,” without acknowledging that in the same speech, Macaulay also said: “The advantages arising from a system of copyright are obvious. It is desirable that we should have a supply of good books: we cannot have such a supply unless men of letters are liberally remunerated; and the least objectionable way of remunerating them is by means of copyright. You cannot depend for literary instruction and amusement on the leisure of men occupied in the pursuits of active life. Such men may occasionally produce compositions of great merit. But you must not look to such men for works which require deep meditation and long research. Works of that kind you can expect only from persons who make literature the business of their lives. . . . Such men must be remunerated for their literary labour. And there are only two ways in which they can be remunerated. One of those ways is patronage [which Macaulay excoriated]; the other is copyright.”

<sup>63</sup> *Kelly*, 336 F.3d 811 (9th Cir. 2003).

<sup>64</sup> “Copyright trolling” occurs when the owners of copyrights (not the original authors of the copyrighted works) bring infringement claims with the sole goal of profiting through litigation, usually by forcing quick settlements. A notable example of a “troll” is Righthaven, LLC, which has brought numerous infringement claims in recent years. See, e.g., *Righthaven, LLC v. Va. Citizens Def. League, Inc.*, No. 2:10-CV-01683-GMN, 2011 WL 2550627 (D. Nev. June 23, 2011) (suing nonprofit group for posting article on website); *Righthaven, LLC v. Hoehn*, 792 F. Supp. 2d 1138, 1151 (D. Nev. 2011), *aff’d* in part, *vacated* in part, 716 F.3d 1166 (9th Cir. 2013) (suing individual posting copyrighted work in online forum); *Righthaven, LCC v. Jama*, No. 2:10-CV-1322 JCM (LRL) (D. Nev. Apr. 22, 2011) (suing nonprofit group as in *Va. Citizens Def. League*,

mutually exclusive, with the latter sometimes reinforcing the former.<sup>65</sup>) The examples I will consider are private copying and mass digitization. Mass digitization in turn covers “orphan works,” databases of copyrighted works, of which Google’s book-scanning program is the leading instance, and image search engines.

### 1. Private copying

As end-users already, and will increasingly, enjoy copyrighted works of all kinds through licensed access-based models,<sup>66</sup> the market failure problem of private copying may appear vestigial. “On demand” transmissions may replace both retention and “time-shifting” copies, for there is no need to “time-shift” when one can receive the work at any time, and no need to possess a copy if the content is accessible at will. U.S. caselaw does not in any event support a general private copying fair use exception for retention copies<sup>67</sup>; an exception does in effect exist for analog copies of musical recordings,<sup>68</sup> and another is in place for backup copies of computer programs,<sup>69</sup> but they are the fruits of specific legislation, not fair use litigation. The Supreme Court in *Sony Corp. of America v. Universal City Studios*<sup>70</sup> did, however, rule (on a rather cursory, and now partly-abandoned, analysis<sup>71</sup>) that time-shifting of free broadcast television was a fair use. I will not here rehearse the reasoning and critiques of *Sony* other than to observe that the 5-justice majority may have perceived an all-or-nothing choice: extending fair use to copying

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with court noting that use of copyright by plaintiffs “has been shown to be nothing more than litigation-driven”). See also Brad Greenberg, Copyright Trolls and Presumptively Fair Uses, 85 U. Colo. L. Rev. 53, 111-14 (2014) (suggesting bad faith should lead to a presumption of fair use).

<sup>65</sup> According to a leading account of the business backstory to the Sony “Betamax case,” the studios were endeavoring to shut down the video tape recorder in favor of the playback-only Video disk technology that the studios had licensed. See James Lardner, Fast Forward: Hollywood, The Japanese, and the Onslaught of the VCR 28—36 (1987).

<sup>66</sup> See, e.g., Jane C. Ginsburg, From Having Copies to Experiencing Works: The Development of an Access Right in U.S. Copyright Law, 50 J. COPYRIGHT SOC’Y 113 (2003).

<sup>67</sup> See, e.g., *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F. Supp. 2d. 349 (S.D.N.Y. 2000) (rejecting fair use defense for company engaged in creating digital backup copies of subscribers’ CDs).

<sup>68</sup> See 17 U.S.C. § 1008 (no infringement action “based on the noncommercial use by a consumer of [an analog recording device] for making . . . analog musical recordings.”)

<sup>69</sup> Id. § 117(a).

<sup>70</sup> 464 U.S. 417 (1984).

<sup>71</sup> See, e.g., Peter S. Menell & David Nimmer, Legal Realism in Action: Indirect Copyright Liability’s Continuing Tort Framework and Sony’s De Facto Demise, 55 UCLA L. Rev. . 143 (2007); Jessica Litman, Mary Poppins Meets the Boston Strangler: The Story of Sony Corp. of America v. Universal City Studios, in Dreyfuss & Ginsburg, supra note 16, at 358.

entire works for the same purpose for which they were disseminated was a significant departure from prior law (as the Ninth Circuit had emphasized below<sup>72</sup>), but limiting fair use to what was then called “productive” use of limited portions of prior works, could have meant depriving the American public of a widely-available and extremely popular device whose use, five Justices concluded, was not harming the copyright owners’ television broadcast market.<sup>73</sup> (As the dissent stressed, the majority gave scant consideration to the new markets that time-shifting would spawn<sup>74</sup>.)

Given *Sony*’s failure to blossom into a general fair use private copying privilege,<sup>75</sup> and the court’s subsequent retreat from its emphasis on the significance of commercial use, one may wonder whether *Sony* retains relevance. Indeed, some have suggested that if the Court had it to do over again today, it might come out differently, notably because video recorders now offer playback without commercials.<sup>76</sup> Another reason to query the continued persuasiveness of *Sony*’s factor four analysis (the only factor on which the court bestowed any sustained analysis) is the burgeoning conflict between time-shifting and video on demand. *Fox Broadcasting v DISH Network*,<sup>77</sup> illustrates the conflict, and demonstrates how a well-advised entrepreneur can structure its copyright-dependent technology in order to fit a new business model within fair use boundaries even in the absence of the usual normative or market failure justifications.

Dish Network, a satellite TV transmission service which retransmits television programming under license, offers its customers the Hopper, a set-top box with both digital video recording and video-on-demand capabilities. Dish’s “PrimeTime Anytime” (“PTAT”) feature

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<sup>72</sup> *Universal City Studios v. Sony Corp. of Am.*, 659 F.2d 963, 970 (9th Cir. 1981), rev’d, 464 U.S. 417 (“[T]he result of applying fair use to intrinsic use cases like *Williams & Wilkins Co.* and this case is a fundamental restructuring of the copyright system not justified by the statutory scheme or traditional notions of fair use.”).

<sup>73</sup> Accord, Paul Goldstein, *Fair Use in Context*, 31 *Colum. J. L. & Arts* 433, 439 (2008).

<sup>74</sup> *Sony*, 464 U.S. at 497-98 (Blackmun, J., dissenting) (“The Court has struggled mightily to show that VTR use has not reduced the value of the Studios’ copyrighted works in their present markets. Even if true, that showing only begins the proper inquiry. The development of the VTR has created a new market for the works produced by the Studios.”).

<sup>75</sup> Or to impel legislation generally to authorize but provide compensation for private audio and video copying, apart from a very specific and largely obsolete law on digital audio tape recorders, see 17 U.S.C., chapter 10.

<sup>76</sup> See, e.g., Ned Snow, *The TiVo Question: Does Skipping Commercials Violate Copyright Law?*, 56 *Syracuse L. Rev.* 27 (2005); Randal C. Picker, *The Digital Video Recorder: Unbundling Advertising and Content*, 71 *U. Chi. L. Rev.* 205 (2004); Michael A. Einhorn, *Internet Television and Copyright Licensing: Balancing Cents and Sensibility*, 20 *Cardozo Arts & Ent. L.J.* (2002).

<sup>77</sup> 723 F.3d 1067 (9th Cir. 2013).

allows subscribers to set a single timer on the Hopper to record and store on the Hopper all primetime programming on any of the four major broadcast networks each night of the week. Finally, Dish's AutoHop feature enables users to skip commercials in PTAT recordings. Fox charged Dish with direct and contributory infringement. The Ninth Circuit rejected the claim of direct infringement, on the (dubious)<sup>78</sup> ground that only the user "made" the PTAT copies. Fox's contributory liability claim turned on a finding of primary infringement by Dish's customers. Applying *Sony*, the Ninth Circuit determined that Dish's customers were engaging in non commercial fair use time-shifting. The commercial-skipping feature, the court ruled, did not affect the analysis of the economic impact of the copying, because the television producer was not the copyright owner of the commercials. Losing the commercials may well have had a deleterious impact, but the harm did not derive from any act that infringed any copyright of Fox's. Similarly, while Fox licensed its programming to other on-demand services such as Hulu, with which Dish's service competed, "the ease of skipping commercials, rather than the on-demand availability of Fox programs, causes any market harm. And as we have discussed, the commercial-skipping does not implicate any copyright interest."<sup>79</sup>

This astoundingly obtuse analysis recalls the Ninth Circuit's decision in *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*,<sup>80</sup> in which the panel majority (over Judge Kozinski's trenchant dissent) granted the credit card payment provider's motion to dismiss a contributory infringement claim on the ground that the commission of the infringement did not require processing the payment. As a matter of technology, it is true that the copies could be made and distributed without the intervention of Visa. But, as Judge Kozinski stressed, the pirate enterprise whose transactions Visa processed wouldn't be making and distributing infringing copies if it couldn't be paid for it.<sup>81</sup> In *Dish Network*, the question should not have been whether Fox had any copyright interest in the advertisements that the Dish customers copied but did not view (indeed, imagine a version of

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<sup>78</sup> See Jane C. Ginsburg, Recent Developments in US Copyright – Part II, Caselaw: Exclusive Rights on the Ebb, 218 *Revue Internationale du Droit d'Auteur* 167, 215--229 (October 2008) (criticizing Second Circuit's analysis of who "makes" the copy). Cf. *National Rugby League Investments Pty Limited v Singtel Optus Pty Ltd.*, [2012] FCAFC 59, (Federal Court, Australia) (rejecting Second Circuit's analysis and finding provider of remote DVR service to have "made" the copy, perhaps in conjunction with the end-user).

<sup>79</sup> 723 F.3d at 1076.

<sup>80</sup> 494 F.3d 788 (9th Cir. 2007).

<sup>81</sup> 494 F.3d at 818--19.

Auto-Hop which recognizes commercials and does not record them; then even if Fox had owned those copyrights, they would not have been infringed precisely because the customers did *not* copy them; nonetheless, the economic effect in all cases remains the same). What allows free broadcast television (and Fox's free licensing to Hulu and other internet services, provided they retain the ads) to be free are the advertisements; take these away and the business model becomes unsustainable. The "value of the work" accordingly diminishes as a result of the third party copying and commercial-skipping.

Thus, while licensed on-demand transmissions may in general be displacing private copying, entrepreneurs can in effect structure the enabling of end-user time-shifting to afford most of the convenience of video on demand (the selection of programming will not be infinite; it will be limited to whatever is broadcast over the four networks in the course of a week), without the pesky commercials (and, of course, without paying the copyright owners). The operation is technically time-shifting; in "feel" to the consumer, however, it's essentially video on demand, but better. Not only does the time-shifting substitute for a licensed use (no "transformative purpose" here), but there is no inability to license on-demand access. If there is a justification for this outcome, it must be in the court's perception that business models to facilitate time-shifting that free customers from commercials are desirable and should not be suppressed by copyright owners who will not license commercial-free retransmissions. (Either that, or the following wooden syllogism: end-user non-commercial time-shifting via video tape recorder is fair use; the DVR and AutoHop offer time-shifting updated for the digital age; therefore their use is fair use too.)

## 2. Mass Digitization

Mass digitization does, at least at first blush, appear to present intractable transactions cost problems. The number of works at issue, and the difficulty of locating their right holders, and even if located, obtaining the necessary rights, may make fair use seem a desirable solution, even for copying and communication of entire works. The proposition does, however, produce an obvious anomaly: the fewer works one copies, the weaker the case for market failure fair use; but vast, immodest, copying entitles the copyist to persist, without permission and without paying. Closer examination, moreover, suggests that volume of copying, standing alone, does not suffice for a free pass, though difficulties in rightowner



location may justify a flexible solution. In either event, if the use is to be permitted, in many instances it should also be paid.

a. Orphan Works

The problem of “orphan works” by now is well-known: Would-be users who are unable to locate the copyright owner, but whose use or exploitation would not qualify for a copyright limitation or exception (such as fair use), must decide whether to renounce their projects or to incur the risk that the copyright owner will reappear once the exploitation is underway, and will demand both injunctive and substantial monetary relief in an ensuing infringement action. Potentially frustrated users range widely, from commercial entities who seek to reissue out-of-print works or to create new works based on “orphan” works, to cultural institutions, notably museums and libraries, who seek to digitize works for preservation and educational purposes,<sup>82</sup> to individuals who seek to incorporate an “orphan” work in their webpage or blog. The former US Register of Copyrights deemed the orphan works problem “pervasive.”<sup>83</sup>

When the Copyright Office first embarked on solving the problem of orphan works, the premise of its inquiry in 2005 was that the use would involve more copying, particularly as a result of digital media, than fair

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<sup>82</sup> The European endeavors concerning orphan works have taken place primarily in the context of the Commission’s “i2010 initiative” on digital libraries. See Communication “i2010: digital libraries” of 30 September 2005, COM(2005) 465 final; Commission Recommendation of 24 August 2006, on the digitisation and online accessibility of cultural material and digital preservation (2006/585/EC), OJEU L 236/28 (31.8.2006), Recital 10; Recommendation 6(a)(c), available at [http://ec.europa.eu/information\\_society/activities/digital\\_libraries/doc/recommendation/recommendation\\_august06/en.pdf](http://ec.europa.eu/information_society/activities/digital_libraries/doc/recommendation/recommendation_august06/en.pdf)

<sup>83</sup> See Statement of Marybeth Peters, Register of Copyrights, before the Subcommittee on Courts, the Internet, and Intellectual Property, Committee on the Judiciary, United States House of Representatives, 110th Congress, 2nd Session, March 13, 2008, available at <http://www.copyright.gov/docs/regstat031308.html>: “In fact, the most striking aspect of orphan works is that the frustrations are pervasive in a way that many copyright problems are not. When a copyright owner cannot be identified or is unlocatable, potential users abandon important, productive projects, many of which would be beneficial to our national heritage. Scholars cannot use the important letters, images and manuscripts they search out in archives or private homes, other than in the limited manner permitted by fair use or the first sale doctrine. Publishers cannot recirculate works or publish obscure materials that have been all but lost to the world. Museums are stymied in their creation of exhibitions, books, websites and other educational programs, particularly when the project would include the use of multiple works. Archives cannot make rare footage available to wider audiences. Documentary filmmakers must exclude certain manuscripts, images, sound recordings and other important source material from their films.”

use could bear, for example republication of whole books.<sup>84</sup> Analysis therefore turned to remedies: might these be structured in a way that encouraged the reuse of orphan works by lowering the (by definition, infringing) user’s risk of substantial monetary exposure.<sup>85</sup> More recently, however, some commentators now argue that the difficulty of locating the rightowner should enter, and favor, the fair use calculus, so that the user owes no damages should the rightowner reappear.<sup>86</sup> Orphan works regimes (we will consider the ones in effect in the EU and in Canada in Part II) do not spare their beneficiaries transactions costs. They may in effect cap them, but by requiring that the would-be exploiter accomplish a “diligent search” for rightholders, orphan works regimes in fact mandate potentially significant expenditures in location costs. As a result, an orphan works regime, whether based in unpaid fair use (which may raise issues of compliance with international standards for permissible exceptions<sup>87</sup>), or modifying remedies (essentially a form of permitted-but-paid, at least for exploitations occurring before the copyright owner’s reappearance), or requiring payment to a fund on behalf of the missing rightowner (with escheat to local cultural initiatives should the rightowner not reappear after a certain time) is not an answer to the transactions cost problem of mass digitization. Mass digitization involves wholesale copying; orphan works regimes operate at retail. Whether for free, or permitted-but-paid, the justification for an orphan works exception lies in the public benefit of the reuse, particularly if the beneficiaries of the exception are non-profit educational and library institutions, rather than as a response to transaction costs.

b. Databases of copyrighted works

True mass digitization, by contrast, can confront the large-scale user with the typical transaction costs conundrum: even where a diligent (or even not-so-diligent) search could locate the rightowner, the cost of

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<sup>84</sup> Report of the Register of Copyrights, Report on Orphan Works (2006) (“For purposes of developing a legislative solution we have defined the ‘orphan works’ situation to be one where the use goes beyond any exemption or limitation to copyright, such as fair use.”).

<sup>85</sup> H.R. 5889, S. 2913, 110<sup>th</sup> Cong, 2d sess., introduced 24 April 2008. See, Jane C. Ginsburg, Recent Developments in US Copyright – Part I, Legislative Developments: Orphan Works, 217 *Revue Internationale du Droit d’Auteur* 99 (July 2008), available at <http://lsr.nellco.org/columbia/pllt/papers/08152>

<sup>86</sup> See, e.g., Jennifer Urban, How Fair Use Can Help Solve the Orphan Works Problem, 27 *Berkeley Tech. L.J.* 1379 (2012) (for libraries and archives).

<sup>87</sup> Berne 9(2), TRIPS 13; see Reply Comments of Profs. Jane C. Ginsburg and Paul Goldstein to Copyright Office Notice of Inquiry, OWR0107.pdf at 10. (2005); Ginsburg RIDA, *supra*.

clearing rights can exceed the benefit of being able to use the work. But these costs should not be overstated. The problem is primarily transitional; for works currently in commerce or disseminated with some form of copyright management information, rightowners can be found and their terms and conditions known. (Actually having to pay or reach some agreement with a known rightowner is not a “transactions cost” that should dispense a commercial actor-user from either.<sup>88</sup>)

As to in-copyright, out-of-commerce works (some of which may be “orphans”), the recently-decided Google Book scanning controversy raises a variety of issues. With the rejection of the class action settlement that would have allowed display of substantial portions of the books’ text,<sup>89</sup> Google’s program and concomitant fair use defenses shrank to providing bibliographic information and displays of “snippets” (2-3 lines) of text in response to user search queries, as well as access to the database of scanned books for purposes of data mining. Google still retains the scanned full text of millions of in-copyright books, but the “output” its users encounter either eschews copyrightable expression or consists of very short extracts. Google had also sought to bolster its fair use argument by invoking a variant of the transactions costs problem. In this instance “diligent search” costs were not involved: Google made no pretense of endeavoring to find right owners of out-of-commerce books. Rather, it urged that the sheer number of rightholders implicated by the mass digitization made *ex ante* rights clearance unduly onerous. Accordingly, Google contended that the burden should be on the right holders to object to Google’s use, not on Google to obtain their accord. And in what some might consider adding insult to injury, Google contended that its program should be deemed a fair use because rightholders had the opportunity to “opt out”.

Arguably, the “opt out” feature was a diversion (albeit a portentous one for the future conceptualization of copyright), and in any event seems to have dropped out of the litigation by the time Judge Chin issued his opinion on Nov.14, 2013. The relevant question should have been whether to focus exclusively on the probably non-infringing outputs, or to concentrate on the creation and maintenance of a massive full-text commercial database. The Southern District of New York’s *Hathi Trust* decision was an encouraging precedent for the former approach, though,

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<sup>88</sup> This proposition may need to be qualified with regard to non-commercial actors: the Georgia State case suggests that failure to provide a user-friendly license could make the copyright owner vulnerable to a successful fair use defense.

<sup>89</sup> See *Authors Guild Inc. v. Google Inc.*, 770 F. Supp. 2d 666, 686 (S.D.N.Y. 2011).

unlike the library consortium, Google is not an eleemosynary institution, and it is not apparent that it requires a social subsidy of the sort that benefits non profit libraries. Nonetheless, there is a powerful argument that exploiting a work for its non-expressive information (bibliographic or bean-counting – how many times and in what works a given word or phrase appears) should not even be prima-facie infringing, and the creation of a database that enables non-expressive, but progress-of-knowledge-enhancing outputs must be equally free. But this proves too much: under U.S. law, a library, including a commercial library, is fully entitled to lend the books it owns; the first sale doctrine precludes any copyright claim. But the library is not entitled to acquire the lending copies without paying for them (or receiving them as a gift). What Google does, or enables others to do, with the outputs may not be infringing, but those uses should not have obscured the inputs.<sup>90</sup>

Judge Chin, however, focused almost exclusively on the outputs, in one sentence effectively bootstrapping the inputs: “as one of the keys to Google Books is its offering of full-text search of books, full-work reproduction is critical to the functioning of Google Books.” That functioning, Judge Chin celebrated as “highly transformative,” thus following the now-rampant use of the term to bless redistributive uses of entire works in the perceived public interest.

The use of book text to facilitate search through the display of snippets is transformative. . . . Google Books thus uses words for a different purpose -- it uses snippets of text to act as pointers directing users to a broad selection of books. Similarly, Google Books is also transformative in the sense that it has transformed book text into data for purposes of substantive research, including data mining and text mining in new areas, thereby opening up new fields of research. Words in books are being used in a way they have not been used before.

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<sup>90</sup> Hathi Trust’s reliance on the “intermediate copying” ground for fair use is not fully persuasive, even for non commercial entities. Three salient differences with intermediate copying fair use cases such as *Sega Enterprises, Ltd. v. Accolade, Inc.*, 915 F.2d 1510 (9th Cir. 1992): the copies there were generated as a necessary part of the copyist’s creation of a new and independent work; the copyist did not retain the copy; and the information needed to create the new work could not be ascertained in other ways.

Google Books has created something new in the use of book text -- the frequency of words and trends in their usage provide substantive information.

Google Books does not supersede or supplant books because it is not a tool to be used to read books. Instead, it "adds value to the original" and allows for "the creation of new information, new aesthetics, new insights and understandings."

On the question of the impact of Google's copying on the potential market for plaintiffs' books, Judge Chin, perhaps surprisingly, embraced the long-spurned argument that defendant's coping does the plaintiff a favor by bringing the work to greater public attention.<sup>91</sup>

A reasonable factfinder could only find that Google Books enhances the sales of books to the benefit of copyright holders. An important factor in the success of an individual title is whether it is discovered -- whether potential readers learn of its existence. Google Books provides a way for authors' works to become noticed, much like traditional in-store book displays. Indeed, both librarians and their patrons use Google Books to identify books to purchase. Many authors have noted that online browsing in general and Google Books in particular helps readers find their work, thus increasing their audiences. Further, Google provides convenient links to booksellers to make it easy for a reader to order a book. In this day and age of on-line shopping, there can be no doubt but that Google Books improves books sales.<sup>92</sup>

Both *Hathi Trust* and *Google Books* adopt the premise that a rejection of the fair use defense will deprive the public of the benefits of the defendant's program. But, does it follow that if the inputs are infringing, the generation of non-infringing outputs must be "terminated" unless the inputs are licensed? In a post-*eBay*<sup>93</sup> remedial landscape, it is not at all clear that a court would award injunctive relief, particularly if it estimated the measure of damages as the price of one copy of each book

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<sup>91</sup> On courts' previous failure to find this contention persuasive, see, e.g., Pierre N. Leval, *Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105 (1990).

<sup>92</sup> *Authors Guild, Inc. v. Google Inc.*, 954 F. Supp. 2d 282, 293 (S.D.N.Y. 2013).

<sup>93</sup> 547 U.S. 388 (2006).

(for works unregistered before the infringement) or at the low end of statutory damages (\$750 per book for works registered pre-infringement<sup>94</sup>). We will consider in Part III whether, as a consequence of possible new-found judicial reluctance to order injunctive relief, the proposed “permitted but paid” regime for certain redistributive uses may already be evolving, particularly in failed fair use cases.

c. Search Engines

A trio of decisions from California involving mass copying of digitized images for inclusion in an image search engine and thumbnail displays in response to search queries,<sup>95</sup> presents transactions cost problems, not necessarily with respect to finding the right owner, whose locatable website the search engine will have “crawled”, but, again, regarding the sheer volume of works. The announced grounds of decision, however, have concentrated on the public benefit and lack of economic impact of a “transformative use.”<sup>96</sup> Because the purpose of the copying was “transformative” in that the purpose of the original photo was “aesthetic”, while the search engine use was “informational,” the search engine use did not substitute for the author’s use (though following the search engine’s links could take one to clearly substitutional pirate sites). The rightowner had contended that the thumbnail images displayed by the search engine competed with the emerging market for downloading thumbnails to cellphones, but in *Perfect 10 v Amazon* the 9<sup>th</sup> Circuit ruled that the plaintiff had failed to prove that such a market truly was in prospect. Reminded that fair use is an affirmative defense, and that the search engine bore the burden of showing that its thumbnails did not compromise that market, the court amended its opinion, but not the result,<sup>97</sup> which suggests that the burden of proof did not matter because the court had already determined the outcome: The public benefit search engines offer required that the use be “fair” (and therefore unpaid) one way or another.

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<sup>94</sup> 17 U.S.C. secs. 412, 504(c)(1).

<sup>95</sup> *Perfect 10, Inc. v. Amazon.com, Inc.* 508 F.3d 1146 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003); *Perfect 10, Inc. v. Yandex*, 2013 WL 1899851 (N.D.Cal. 2013)

<sup>96</sup> The *Perfect 10* court did, however, also characterize the index as a “work.” *Perfect 10 Inc. v. Amazon, Inc.*, 508 F.3d at 1165 (“[A] search engine provides social benefit by incorporating an original work into a new work, namely, an electronic reference tool.”)

<sup>97</sup> *Id.* at 1146 (noting amendment of decision on December 3, 2007).

## II Comparative Law: EU, Canada, Australia and NZ [query whether to consider Berne-TRIPs compatibility]

The U.S. is an outlier in the broader international landscape of copyright exceptions. The copyright laws of EU member states, Canada, Australia and New Zealand do not include an all-purpose fair use defense (though one has been proposed in Australia), but all these States have enacted a panoply of copyright exceptions, many of which require remuneration. Thus, while our fair use doctrine confronts courts with an all-or-nothing choice, other countries have charted middle courses between barring the use and permitting its unremunerated pursuit. Some of these measures correspond to specific compulsory licensees in U.S. law, for example, for cable retransmission.<sup>98</sup> Others, however, cover some of my proposed zone of “permitted but paid” uses. The various schemes range from compulsory licenses with government rate-setting to “license it or lose it” schemes in which an unremunerated exception will apply if the copyright owner fails to offer a license. In the latter instance, the license will generally cover a substantial number of works, and the licensor will generally represent a collective of authors and/or publishers.

But, even with arm-twisting, licensing will work only to the extent that the licensor has the rights to license. In the case of mass uses of works (as the Google Books controversy has shown in the U.S.) there may be no reasonably compassable number of rightholder representatives, particularly where copyright owners have not authorized a representative. The European Nordic countries have addressed this transactions cost problem by imposing an “extended collective license” regime, in which the works of unrepresented rightholders will be brought within the collective management society’s licensing authority once the society has attained a (legislatively specified) critical mass of rightholders. More recently, the French legislature in 2012 devised a Google-esque solution to mass book-scanning, by combining an opt-out regime with collective licensing of the digital rights of the remaining books designated by the national library for scanning and republication. Collective management of the grant or administration of the licenses ensures that the authors (and not merely the publishers or other distribution intermediaries) will receive a share of the licensing revenue.

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<sup>98</sup> See, e.g., Copyright Act 1968 (as amended) §135 (Austl.); Copyright Act 2012 §31 (Can.); Consolidated Act on Copyright 2010 §35 (Den.); Copyright and Related Rights Act 2000 (as amended) §175 (Ir.); Copyright Act 1994 (as amended) §88 (N.Z.); Copyright, Designs, Patents Act 1988 (as amended) §73(4) (U.K.).

Finally, with respect to “orphan works” whose rightholders cannot be found despite a diligent search, the E.U. and Canada authorize certain uses by certain classes of users; permission may be obtained through a designated licensing authority. These regimes have also addressed the compensation due to those rightholders who subsequently reappear. This section of the article will summarize current regimes and pending law reform measures abroad that might inspire a U.S. “permitted but paid” regime.

The regimes may be divided as follows: A. License it or lose it; B. Use permitted; remuneration required; C. French Law on “Unavailable Books”; D. Orphan works.

#### A. License it or lose it

“License it or lose it” offers one response to the transactions cost problem of large-scale use of copyrighted works. The use in question will fall under a statutorily-specified unremunerated exception unless there is a collective license in place for the use and, usually, if the user was reasonably aware of the licensing scheme. In effect, it places the burden on the copyright owners to organize collective licensing of certain uses by making them uncompensated otherwise. The United Kingdom and New Zealand currently follow this approach. In the existing schemes and in the proposed scheme, these exceptions/uses are explicitly enumerated in the statute and noted to be unremunerated only in the absence of a licensing scheme. Some of the exceptions, particularly for cable retransmissions and for certain uses for the benefit of the visually impaired, address uses which are currently the subject of compulsory licensing or an outright exemption in the US.

In the United Kingdom, the scheme includes the following uses:<sup>99</sup>

- 1) recording certain broadcasts or copies of broadcasts for placement in non-profit archives; educational establishments recording broadcast or copies of broadcasts for non-commercial educational purposes;
- 2) specially designated bodies making copies of broadcasts for deaf, hard of hearing and handicapped with subtitled modifications as needed; and

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<sup>99</sup> Copyright, Designs, Patents Act 1988 (as amended) §§35, 74, 31 (U.K.).



3) making copies and published editions for personal use of visually impaired, including Braille editions and spoken word recordings.

New Zealand:<sup>100</sup>

1) copying sound recording for instruction or relating to learning a language by correspondence and copying done by person giving or receiving lesson and no charge is made for supplying copy;

2) copying and communication of a “communication work”<sup>101</sup> made or communicated by or on behalf of or made and supplied by an educational resource supplier for an educational purpose;

3) official archives playing or showing films or sound recordings so long as payment to view/hear no more than a reasonable contribution toward maintenance of archive;

4) media monitors recording or transcribing communication work that consists wholly or substantially of news reports or discussions of current events if conditions met (parties negotiate or government sets rate but this does not apply if there is a licensing scheme in place); and

5) cable retransmission of communication works.

The proposed changes to Australia’s copyright legislation<sup>102</sup> include replacement of certain statutory licenses with either negotiated licenses or a newly-introduced, U.S.-inspired unpaid fair use exception. Existing statutory licensing schemes currently in place for governments, educational institutions and institutions assisting persons with a print disability would all be repealed. Under the proposed new scheme, these licenses should be negotiated voluntarily. However, institutions would not need to negotiate licenses for uses that the parties or the courts considered to be fair use.

B. Use permitted; remuneration required

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<sup>100</sup> Copyright Act 1994 (as amended) §§44, 48, 57, 91, 88 (N.Z.).

<sup>101</sup> A “communication work” includes “radio and TV broadcasts and Internet transmissions, separate from the films, music and other material which they contain,” Copyright Council of New Zealand, An introduction to copyright in New Zealand (January 2009) at 2, available at <http://www.copyright.org.nz/viewInfosheet.php?sheet=29>.

<sup>102</sup> Australian Law Reform Commission [ALRC], Copyright and the Digital Economy, ALRC Report 122, Feb. 13, 2014 [hereinafter ALRC Report].

Here, an author may not prohibit specific enumerated uses, but she is entitled to equitable remuneration for these uses. In most instances, a collecting society is responsible for collecting and distributing remuneration and often is the only party who may assert a claim. The key issue, of course, is how the remuneration is set. National legislation discloses three variants on the theme: 1) private parties (usually collecting societies) voluntarily set the remuneration rate; 2) private parties set the remuneration rate but the government steps in to determine the rate when the private parties can't agree; and 3) government requires users to obtain licenses from collecting societies. The following is not exhaustive: it covers only some EU member states and lists only those exceptions that do not correspond to a compulsory license already present in U.S. law.<sup>103</sup> Cumulatively, the categories suggest the kinds of uses that might populate a U.S. Permitted but Paid regime.

#### 1. Private Parties Set Remuneration Rate

In Austria, the author is entitled to equitable remuneration that may only be asserted by a collecting society for the following uses:<sup>104</sup>

- 1) reproducing and distributing published individual works of language to extent justified by purpose (e.g. churches, schools) and also broadcasts designated to be school broadcasts;
- 2) reproducing and distributing individual published works which by nature and designation intended for use in schools or teaching;
- 3) libraries using video or audio media for public recitation, performance or presentation of works for no more than two visitors at a time and not for profit;
- 4) schools and higher educational establishments publicly performing cinematographic work for purposes of teaching to extent justified (but does not apply to works intended for teaching); and
- 5) accommodation enterprises publicly showing cinematographic works to guests provided that more than two years have elapsed since work's first performance, performance carried out with aid of permitted audio or video medium and spectators admitted free of charge.

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<sup>103</sup> I do not here address private copying levies.

<sup>104</sup> Federal Law on Copyright in Works of Literature and Art and on Related Rights 1998 §§45, 51, 54(1)(3), 56(b)-(c) (Austria).

Finland: <sup>105</sup>

In Finland, the author has a right to remuneration for the following uses:

- 1) reproducing published works by means other than sound and moving images for those who cannot use the works in the ordinary manner due to disability or illness (but government issues decree on which institutions are entitled to make copies to lend, sell or use); and
- 2) reproducing minor parts of short published literary or artistic works for use in educational compilation after required years have elapsed since publication (but does not apply to works created for use in education).

Germany: <sup>106</sup>

In Germany, the author is entitled to equitable remuneration, which in most instances may only be asserted by a collecting society, for the following uses:

- 1) reproducing work for non-commercial purposes for exclusive distribution to persons with disabilities if reproduction is necessary for such access;
- 2) reproducing, distributing and making available published works in non-commercial basic and further training facilities, vocational training facilities, or for church use (but must communicate intent to author or rights holder);
- 3) reproducing, distributing and communicating newspaper articles and broadcast commentaries and connected illustrations in newspapers and similar information sheets (but not required if short extracts of several articles or commentaries used for overview);
- 4) publicly performing published work to public if serves non-profit-making purpose of event organizer, participants admitted free of charge and performers unpaid (but not required to pay for events organized by youth, social welfare, geriatric or prisoner's welfare); and
- 5) public libraries reproducing and transmitting small parts of published articles by post or fax (but limitations on electronic reproduction).

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<sup>105</sup> Copyright Act 1961 (as amended) §§17-18 (Fin.).

<sup>106</sup> Law on Copyright and Neighboring Rights 1998 (as amended) §§45(a), 46, 49(1), 52, 53(a) (Ger.).

Lithuania: <sup>107</sup>

In Lithuania, the author is entitled to remuneration through compulsory licenses that are administered and distributed by the appropriate collecting society for the following uses:

- 1) reproducing by reprography for non-commercial purposes published articles or other short work, short extract of writing with or without illustrations; and
- 2) reproducing by reprography for non-commercial purposes work kept in publicly accessible libraries, educational establishments, museums or archives, except when over the internet, for purpose of replacement of a lost, destroyed, unfit-for-use copy in own or other archive or library if impossible to obtain by other means.

Netherlands: <sup>108</sup>

In the Netherlands, the author must be paid equitable remuneration for the following uses:

- 1) libraries and educational institutions making copies of printed works for their library services and for students;
- 2) use for the benefit of people with a disability if the use is non-commercial and related to the disability.

Norway: <sup>109</sup>

In Norway, the author is entitled to remuneration for the following uses:

- 1) copying published work to use in public examination;
- 2) reproducing collective work for use in religious services or education or minor parts of literary/scientific works or musical works or short works if five years have elapsed since the expiry of the year in which the work was published;
- 3) reproducing published works of art and photos in connection with the text of a critical or scientific treatise which is not of a generally

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<sup>107</sup> Law on Copyrights and Related Rights 1999 (as amended) Art. 23 (Lith.).

<sup>108</sup> Act of Sept.23, 1912 Containing New Regulation for Copyright (as amended) Arts. 16h, 15j, 26a (Neth.).

<sup>109</sup> Copyright Act 1961 (as amended) §§13(a), 18, 23, 23(a) (Nor.).

informative character when done with proper usage and to extent necessary to achieve desired purpose; and

4) reproducing published works of art and photos in newspapers, periodicals and broadcasts in connection with reporting a current event (but does not apply if the current event is related to the work that is reproduced).

Poland: <sup>110</sup>

In Poland, the author must be paid remuneration for the following uses:

1) including excerpts from larger works or entire small works in textbooks and in anthologies that are collections of excerpts for scientific or educational purposes;

2) centers for scientific and technical information distributing single copies of excerpts from published works; and

3) reproducing published works of fine art in encyclopedias and atlases when attempts to contact copyright owners for permission encounter serious obstacles.

Spain: <sup>111</sup>

In Spain, the author is entitled to equitable remuneration for the following uses:

1) reproducing, distributing, and communicating works disseminated in mass media studies and articles on current events (unless rights expressly reserved).

Sweden: <sup>112</sup>

In Sweden, the author must be paid equitable remuneration for the following uses:

1) using by and for the disabled beyond specifically exempted thresholds; and

2) distributing more than a few copies or communicating or distributing copies and recordings that disabled persons can retain.

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<sup>110</sup> Act on Copyright and Related Rights 1994 (as amended) Arts. 29.2, 30.2, 33.3 (Pol.).

<sup>111</sup> Revised Law on Intellectual Property 1996 (as amended) Art. 33.1 (Spain).

<sup>112</sup> Act on Copyright in Literary and Artistic Works 1960 (as amended) Art. 17 (Swed.).

## 2. Private Parties Set Remuneration Rate, Copyright Tribunals set rate if Parties Cannot Agree

Australia: <sup>113</sup>

In Australia, the Copyright Tribunal sets the rate if private parties cannot agree on a rate for the following uses:

- 1) reproducing articles or reasonable portion of published or unpublished works in electronic form by educational institutions, including visual art alongside text;
- 2) reproducing published literary and dramatic works for the research, study or instruction of a person with a print disability, including in electronic form;
- 3) copying to assist persons with intellectual disabilities if material is not commercially available; print disability license holders broadcasting published literary and dramatic works and adaptations;
- 4) qualifying institution copying a broadcast, or any work, sound recording or film in a transmission for education for the disabled;
- 5) performing sound recordings in places open to the public.

Denmark: <sup>114</sup>

In Denmark, the Copyright License Tribunal sets the rate in if private parties cannot agree on a rate for the following uses:

- 1) use of published sound recordings in broadcasts on radio and television and other public performances (but excluding on-demand Internet transmission);
- 2) non-commercial use and distribution of copies of published works specifically intended for the blind, visually impaired, deaf and sufferers of speech impediments, including sound recordings of literary works for visually impaired (but no other sound recordings of literary or musical works); and

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<sup>113</sup> Copyright Act 1968 (as amended) §§135, 108 (Austl.)

<sup>114</sup> Consolidated Act on Copyright 2010 §§68, 17(1)-(3), 18 (Den.).

3) use of minor portions of literary and musical works or such works of small proportions and works of art in connection with the text in composite works compiling contributions by a large number of authors for use in educational activities provided that five years have elapsed since the work was published.

Italy: <sup>115</sup>

In Italy, the rate is set based on criteria set out by the Presidency of the Council of Ministers if private parties cannot agree on a rate for the following uses:

- 1) reproducing protected works in anthologies for educational use; and

New Zealand: <sup>116</sup>

In New Zealand, the Copyright Tribunal sets the rate in if private parties cannot agree on a rate for the following uses:

librarian making copies of published editions for collections of other libraries

Sweden: <sup>117</sup>

In Sweden, the court sets the rate if private parties cannot agree on a rate for the following uses:

- 1) reproducing protected materials in compilations made and used for educational purposes.

When the parties cannot agree, the state may resolve the rate through national Copyright Boards or Tribunals. Generally speaking, Copyright Tribunals seem to play the largest role in Australia, New Zealand, the United Kingdom and Canada. In most instances, however, this role remains fairly minor. In Australia, for example, parties generally agree on a rate amongst themselves and the Copyright Tribunal hears approximately two matters per year.<sup>118</sup> Similarly in New Zealand, collecting societies set rates and the Tribunal steps in when the collecting

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<sup>115</sup> Law No. 633 of April 22, 1941 for the Protection of Copyright and Neighboring Rights (as amended) Arts. 46(3), 58, 51-59, 70(2), 60 (It.).

<sup>116</sup> Copyright Act 1994 (as amended) §§54, 63 (N.Z.).

<sup>117</sup> Act on Copyright in Literary and Artistic Works 1960 (as amended) Art. 18 (Swed.).

<sup>118</sup> Email correspondence with Paddy Hannigan, Deputy District Registrar, Australian Copyright Tribunal Feb. 9, 2014.

society rate is challenged. These challenges often result in interparty settlements and the Tribunal issues a rate only if the matter goes to a full hearing, which rarely occurs.<sup>119</sup> In the United Kingdom, the Copyright Tribunal primarily confirms rates that private parties have agreed upon themselves.<sup>120</sup>

The Copyright Board plays the largest role in rate-setting in Canada, as certain collecting societies are required by law to set tariffs for certain uses. Here, the collecting society publishes the tariff and parties are given a chance to object. If a party does not object, the tariff is confirmed. If a party does object, the Copyright Board proceeds to a hearing, but frequently during this process parties negotiate and agree on a rate amongst themselves and ask the Copyright Board to certify that rate six to twelve months later, before the matter goes to a full hearing. The Copyright Board sets the rate only when the parties cannot come to an agreement amongst themselves. For uses that are not required by law to have a tariff, parties generally negotiate amongst themselves and may file the rate with the Copyright Board but are not required to do so. On rare occasion, the Copyright Board may be asked to act as an arbiter or set a tariff with regard to these uses.<sup>121</sup>

### 3. Government Requires License from Collecting Society - Extended Collective Licensing<sup>122</sup>

The Nordic countries have since the early 1960s facilitated the large-scale licensing of works, generally for public purposes, by legislation that brings works unrepresented by the relevant collecting society within the licensing authority of that society. Some, but not all, of the statutory provisions allow rightholders to opt out of the collective license. Extended collective licenses (ECL) have received considerable attention lately, as a possible solution to the orphan works and mass digitization problems.<sup>123</sup> Scholars from the Nordic countries, however,

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<sup>119</sup> Email correspondence with Prof. Susy Frankel, President, N.Z. Copyright Tribunal, Mar. 3, 2014.

<sup>120</sup> Email correspondence with Catherine Worley, U.K. Copyright Tribunal, Feb. 20, 2014.

<sup>121</sup> Phone conversation with Dr. Raphael Solomon, Director, Research & Analysis, Copyright Board Canada, Mar. 3, 2014.

<sup>122</sup> See generally Jens Schovbo and Thomas Riis, *Extended Collective Licenses and the Nordic Experience*, 33 *Colum J. L. & Arts* 471 (2010); Gunnar Karnell, *Extended Collective License Clauses and Agreements in Nordic Copyright Law*, 10 *Colum J. L. & Arts* 73 (1985).

<sup>123</sup> See generally, David R. Hansen, et al, *Solving the Orphan Works Problem in the United States*, 37 *Colum. J.L. & Arts* 1 (2013); Katharina de la Durantaye, *Finding a*



have expressed skepticism that the approach can be generalized to nations lacking the Nordic countries' particular traditions of social organization.<sup>124</sup> Nonetheless, I summarize the laws' coverage in order to give an idea of the kinds of uses these legislatures have determined should be permitted but paid.

ECL uses fall into a number of similar categories. They are as follows:

- 1) educational uses;<sup>125</sup>
- 2) library and archive use;<sup>126</sup>
- 3) internal use in public and/or private organization;<sup>127</sup>

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Home for Orphans: Google Book Search and Orphan Works Laws in the United States and Europe, 21 *Fordham Intell. Prop. Media & Ent. L.J.* 229 (2011).

<sup>124</sup> See Schovbo and Riis, *supra* note 118.

<sup>125</sup> Consolidated Act on Copyright 2010 §13 (Den.) (copying published works and recording works broadcast on radio and TV as well as own performance for educational uses (does not apply to computer programs or more than brief extracts from cinematographic works); Copyright Act 1961 (as amended) §14 (Fin.) (reproducing, making public and performing works for educational activities and scientific research); Copyright Act 1961 (as amended) §13(b) (Nor.) (copying published works and broadcasts for educational activities (but does not apply to broadcasts that consist of more than minor parts of cinematographic work); Act on Copyright in Literary and Artistic Works 1960 (as amended) Art. 42c (Swed.) (copying works that have been made public for educational purposes).

<sup>126</sup> Consolidated Act on Copyright 2010 §16(b) (Den.) (public libraries digitally reproducing articles from newspapers, magazines, composite works, brief excerpts from published literary works and illustrations and music reproduced in connection with the text (but does not permit broadcast by radio or TV or the making available to the public of works in such a way that the public may access them at the place and time of their choosing); Copyright Act 1961 (as amended) §16(d) (Fin.) (archives, public libraries, museums reproducing and communicating works for purposes not included in unremunerated exceptions); Copyright Act 1961 (as amended) §16(a) (Nor.) (libraries, archives, museums copying and making available published works in their collections); Act on Copyright in Literary and Artistic Works 1960 (as amended) Art. 42d (Swed.) (libraries and archives communicating single articles and short portions of works to library borrowers (but does not apply to computer programs) and distributing copies of works prepared pursuant to library exception for purposes not included in unremunerated exceptions).

<sup>127</sup> Consolidated Act on Copyright 2010 §14 (Den.) (public or private institutions, organizations and businesses copying articles, brief excerpts of descriptive published works or musical works and illustrations for internal use to advance their own activities); Copyright Act 1961 (as amended) §13(a) (Fin.) (reproducing published article and accompanying illustration for internal communication); Copyright Act 1961 (as amended) §14 (Nor.) (public and private institutions and organizations and commercial enterprises copying published works and broadcasts for use within their own activities (but does not apply to broadcasts that consist of more than minor parts of cinematographic work)); Act on Copyright in Literary and Artistic Works 1960 (as amended) Art. 42b (Swed.) (decision-making municipal assemblies, governmental and

- 4) broadcasting published works;<sup>128</sup>
- 5) television retransmission;<sup>129</sup>
- 6) fixations of broadcast works for the disabled;<sup>130</sup>
- 7) reproducing published works of art;<sup>131</sup>
  
- 8) public access to specified public television programs at a time and place chosen by the viewer.<sup>132</sup>

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municipal authorities, enterprises and organizations copying published literary works and works of fine art published in connection with the text by means of reprographic reproduction in order to satisfy the need for information within their field of activities).

<sup>128</sup> Consolidated Act on Copyright 2010 §30 (Den.) (public access television companies broadcasting published works on radio or TV broadcast (but does not apply to satellite unless there is a simultaneous terrestrial broadcast); Copyright Act 1961 (as amended) §25(f) (Fin.) (broadcasting organization transmitting a work, copying work for up to a year to use in its own broadcast for a maximum of four times per year (and potentially longer/more depending on terms of ECL)(broadcasting organization transmitting a new work made public if included in a TV program produced by the broadcasting organization and transmitted before January 1, 1985); Copyright Act 1961 (as amended) §30 (Nor.) (broadcast organizations named by King broadcasting published work); Act on Copyright in Literary and Artistic Works 1960 (as amended) Art. 42e (Swed.) (sound radio and television organizations specified by government broadcasting public literary, musical and fine art works (but does not apply to works made for the stage and only applies to transmissions via satellite if the broadcasting organization simultaneously carries out a broadcast through a terrestrial transmitter)).

<sup>129</sup> Consolidated Act on Copyright 2010 §35 (Den.) (simultaneous retransmission on cable of works broadcast wirelessly on radio or television); Copyright Act 1961 (as amended) §25(4) (Fin.) (retransmitting work included in radio or TV transmission for reception by the public simultaneously with the original transmission); Copyright Act 1961 (as amended) §34 (Nor.) (broadcast organizations using works that are lawfully included in a broadcast and communicating to public by simultaneous and unaltered retransmission); Act on Copyright in Literary and Artistic Works 1960 (as amended) Art. 42f (Swed.) (transmitting or retransmitting to public, simultaneously and in unaltered form, by wire or wireless means, works which form part of a wireless sound radio or TV broadcast).

<sup>130</sup> Consolidated Act on Copyright 2010 §17(4) (Den.) (government, municipal and other social nonprofit institutions reproducing sound or visual recordings broadcast on TV or radio in a manner accessible to visually handicapped and hearing-impaired people by means of sound or visual recordings); Copyright Act 1961 (as amended) §17(b) (Nor.) (producing and using fixations for the disabled (and King may issue regulations regarding right to make a fixation of published film or picture with or without sound not essentially consisting of musical works)).

<sup>131</sup> Consolidated Act on Copyright 2010 §24(a) (Den.) (reproducing published works of art); Copyright Act 1961 (as amended) §25(a)(2) (Fin.) (reproducing work of art in collection or sale for purposes other than promoting the exhibit/sale).

<sup>132</sup> Consolidated Act on Copyright 2010 §30(a) (Den.) (public access to state-owned television company productions at places and times selected by the viewer); Copyright Act 1961 (as amended) §32 (Nor.) (specific broadcasting organizations using issued works in their collections and in connection with new broadcasts and transmissions in

### C. French Law on “Unavailable Books”

The French legislature in March 2012 unanimously enacted a law on “unavailable books,”<sup>133</sup> designed to make the corpus of out of print French books digitally available (and to offer a national alternative to Google Books, whose scanning program the Paris trial court had, not coincidentally, condemned as copyright infringement<sup>134</sup>). The law directs the *Bibliothèque nationale* to establish a database of all works published in France before 2001 that are not available in print or digital forms. The creation of the list derives from comparing the national library’s holdings with databases of commercially available books, but also includes a crowd-sourcing component. Every year, the national library will generate a new list.

The law vests the management of the rights in a collecting society whose board is composed of equal numbers of authors and publishers. Once the book is listed, authors and publishers have six months to oppose the collecting society’s management of the book. (After six months, the author may nonetheless oppose on the basis of harm to her honor or reputation.) If the publisher opposes, it has two years to exploit the book; the author incurs no corresponding obligation. Thereafter, the collecting society is empowered to exercise the right to authorize the reproduction and communication of the book in digital form, by offering five-year renewable non-exclusive licenses to digitize and disseminate, subject to remuneration. The law does not in fact detail how the remuneration will be calculated, other than to require that it be « equitably » distributed between authors and publishers, and that the author’s share may not be less than the publisher’s.<sup>135</sup>

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such a way that individuals can choose time and place of access to the work (only applies to works broadcast before January 1, 1997 that are part of broadcaster’s own productions and author may prohibit use).

<sup>133</sup> Loi no 2012-287 du 1er mars 2012 relative à l’exploitation numérique des livres indisponibles du XXe siècle (1) [Law 2012-287 of Mar. 1, 2012 on the Digital Exploitation of Unavailable Books of the Twentieth Century], Journal Official de la République Française [J.O] [Official Gazette of France], Mar. 2 2012, p. 3986, effective as of the publication of décret n°2013-182 of Feb.27, 2013 on the application of articles L.134-1 à L.134-9 of the Code of intellectual property. The French Constitutional Council recently rejected a challenge to the constitutionality of this law, see Cons. constitutionnel No. 213-370 QPC, 28 Feb. 2014.

<sup>134</sup> Tribunal de Grande Instance de Paris, 3d chamber, Judgment of Dec. 19, 2009 (Editions du Seuil v Google,), available at [http://www.legalis.net/?page=jurisprudence-decision&id\\_article=2812](http://www.legalis.net/?page=jurisprudence-decision&id_article=2812)

<sup>135</sup> Code de la Propriété Intellectuel, art.L.134-3 II cl. 5 et seq. (Fr.)

Absent opposition, the collecting society must first offer the original print publisher a ten-year automatically renewable exclusive license to reproduce and make the work available in digital form. The publisher has two months to respond, and, if it exercises this right of first refusal, three years to make the book available. If the publisher does not exercise the right, or fails to publish digitally within 3 years, the collecting society will offer non-exclusive digitization and dissemination licenses to all comers. The author may oppose the grant of the exclusive license to the original print publisher if the author proves that the publisher did not acquire digital rights. The author may at any time withdraw the collecting society's power to grant non-exclusive digitization licenses if the author proves that he or she alone held digitization rights. And authors and publishers may at any time jointly withdraw the collecting society's power, but the publisher must exploit the book within 18 months. Any licenses the collecting society may already have granted will continue in force for any remainder of the five-year period covered by the grant.

In the case of so-called "orphan books," the French law empowers the collecting society to authorize publicly accessible libraries to digitize and disseminate books in their collections, if after ten years from the inclusion of the book in the collecting society's repertoire, the copyright holders have not been found notwithstanding a diligent search. Libraries pay no remuneration to the collecting society, but in turn must not derive any economic or commercial benefit from digitizing and making the books available.

A few observations: First, the law does not create a national digital free lending library. With the exception of orphan books, the law does not enable libraries freely to digitize and disseminate out of print books. Libraries could acquire non-exclusive licenses to do so, but the licenses must be paid for. On the other hand, the cost of those licenses may well be considerably less than the cost of negotiating rights from the copyright owners. It remains to be seen whether libraries would undertake the outlay, and, if they did, whether the free availability of digitized out-of-print books from libraries would discourage for-profit publishers from entering the market.

Second, non exclusive licenses for exercise by libraries or others will be granted only if the publisher does not make the book available. Here, the law's allocation of the respective rights of authors and publishers is problematic, and, for France, surprising. During the first six months following the book's inclusion on the *Bibliothèque nationale's* database,

both authors and publishers may oppose the collecting society's exercise of digitization rights. The objecting publisher, however, will have to exploit the book within two years. But the publisher may not have acquired digital rights, or the contract may be ambiguous as to the acquisition of rights over new modes of exploitation. So, without making a deal with the author, the publisher may not be in a position to oppose the collecting society's administration of digital rights. On the other hand, if the publisher does not oppose, the collecting society administers the rights, but must first offer them, on an exclusive basis, to the publisher who holds the print rights. In other words, the law gives to the publishers what they may not have received by contract. In a reversal of the usual burden of proof regarding the scope of the author's grant of rights, the law requires the author to demonstrate that she retained the rights, rather than obliging the publisher to prove their acquisition. Ambiguity in the contract now favors the publisher. So why should the publisher bother negotiating with the author for digital rights if the publisher can get those rights by transfer of law? Arguably, this is expropriation, and worse, the law expropriates authors not for the public benefit of non-profit libraries, but for the benefit of for-profit publishers. On the other hand, the authors will be paid half the licensing revenue; without the licensing scheme, the author would have derived no revenue from the books that otherwise would have remained out of commerce.

The law has now been in effect long enough for the *Bibliothèque nationale* to have published an initial list of 60,000 "unavailable" titles. The collecting society designated to administer the electronic rights in those books has received only 2500 oppositions to the listings, mostly from authors or publishers who claim an intention to publish a digital edition.<sup>136</sup> Details concerning who undertakes the digitization, and at whose cost, remain to be worked out. As does the rate-setting for the royalty to be paid to authors. And it is still too early to ascertain how many of the original publishers will take up the collecting society's invitation to prepare a digital edition.

The law, conceived as France's answer to Google,<sup>137</sup> goes a step beyond Nordic-style extended collective licenses because it vests the

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<sup>136</sup> Email from Florence Marie Piriou, counsel to Sofia, the collecting society empowered to administer the licenses for "unavailable books," 7 Oct.2013.

<sup>137</sup> See, e.g., Franck Macrez, *L'exploitation numérique des livres indisponibles : que reste-t-il du droit d'auteur ?*, (3 April 2012), <http://franck.macrez.net/?p=210> (« the solution that was adopted seeks to give new life to a currently neglected corpus, and to respond to the desire for massive digitization inspired by Google»); Société nationale de

management authority in a collecting society without requiring the society to demonstrate that it already represents most or even some of the rightholders. Although the society exercises a “mandate” or “authorization to manage,”<sup>138</sup> it is not the rightholders who delegate this authority (as with conventional collecting societies), but the State which confers it. This in turn implies that the law endows the State with the power to grant digitization licenses in pre-2001 French-published books whose rightholders do not timely object or, having objected, do not timely publish. The law thus also steps well beyond “opt out” in that it not only requires authors and publishers to declare their ownership and their objections in order to retain their rights, but also, at least for the publishers, in fact to exercise those rights, lest they be granted to other publishers, albeit with unspecified remuneration to the original rightholders. The remuneration feature makes this an attenuated version of “use it or lose it.” It is, for France, a country long wed to a highly “proprietary” concept of copyright,<sup>139</sup> a rather radical reworking. It is also unlikely the legislature, in its haste to institute a national program of book-scanning, thought through the broader implications of vesting the State with the authority to direct digital exploitations of out of print books (or effectively to transfer the author’s digital rights to the publishers).<sup>140</sup>

However conceptually problematic, the French law does offer another model of permitted-but-paid. One that short circuits the

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l'édition, *Numérisation des livres indisponibles*, <http://www.sne.fr/dossiers-et-enjeux/numerique/numerisation-des-livres-indisponibles.html> (genesis of the law was to respond to Google Books' digitization strategy); . See also Lionel Maurel, *De la loi sur les indisponibles au registre ReLIRE : la blessure, l'insulte et la réaction en marche* (24 March 2013), <http://scinfolex.com/2013/03/24/de-la-loi-sur-les-indisponibles-a-la-base-relire-la-blessure-linsulte-et-la-reaction-en-marche/> (« Far from having done better than Google, France has employed exactly the same dubious procedures as the search engine, with the same consequences »)

<sup>138</sup> Florence Marie Piriou, *Nouveau régime légal des livres indisponibles du XXe siècle* (unpublished paper on file with author) (« Il ne s'agit ni d'une exception ni d'une cession légale de droits mais plutôt d'un mandat légal » ; « At issue is neither an exception nor a statutory transfer of rights, but rather a legal mandate (authorization). »).

<sup>139</sup> For example, the first article of the copyright section of the Code de la Propriété Intellectuelle, L. 1-111, declares (“L'auteur d'une oeuvre de l'esprit jouit sur cette oeuvre, du seul fait de sa création, d'un droit de propriété incorporelle exclusif et opposable à tous.” ; “The author of a work of authorship enjoys in that work, by the sole fact of its creation, an incorporeal and exclusive property right which may be asserted against all”).

<sup>140</sup> The French law may also clash with international norms limiting copyright exceptions and limitations. Because these apply only to foreign works, however, the legislature has sought to avoid the problem by limiting the law's application to works first published in France. To the extent that those works may include translations of foreign authors' works, the legislation may still be vulnerable to challenge for violation of TRIPs art 13 (should any foreign government seek to bring such a challenge).

difficulties of assembling rightholders into a collecting society, or of extending that society's authority to represent non members. And which may produce some revenue for the authors of books now lying fallow. It is also clear that any initiative of this scope would require legislative intervention; private ordering on this scale is not an option.<sup>141</sup>

#### D. Orphan works

In 2012, the EU issued a Directive regarding orphan works to permit public libraries and non-profit national broadcasters to disseminate works of authors and rightholders who cannot be located following a diligent search.<sup>142</sup> The Directive requires payment of "fair compensation" to rightowners who reappear and "put an end" to the work's "orphan" status.<sup>143</sup> Because member states have until October 29, 2014 to implement the Directive,<sup>144</sup> however, only the UK and Hungary currently present examples of compensation schemes. On the other hand, Canada has long established a licensing program for works whose rightholders cannot be found.<sup>145</sup>

##### 1. E.U.

The Directive gives member states considerable leeway in addressing the rights of reappearing rightholders. Art 6(5) provides that "Member States shall be free to determine the circumstances under which the payment of such compensation may be organised."<sup>146</sup> Currently, with an October 29, 2014 deadline to transpose the Directive into national law, only the U.K. and Hungary have adopted remuneration schemes,

##### a. U.K.

The Enterprise and Regulatory Reform Act 2013, 2013 c. 24, section 77, "licensing of copyright and performers' rights," adds a new orphan works provision, sections 116A-116D. The legislation

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<sup>141</sup> Cf. *Authors Guild v Google*, supra (scale of proposed settlement inappropriate to private ordering).

<sup>142</sup> Directive 2012/28/EU of the European Parliament and of the Council of 25 Oct.2012 on certain permitted uses of orphan works, OJEU L 299/5 (27 Oct.2012).

<sup>143</sup> Id. art. 6(5) and recital 18.

<sup>144</sup> Id., art. 9(1).

<sup>145</sup> The Canadian Copyright Board's issued its first decision in this regard in 1990. *MacLean Hunter Ltd.* File 1990-3 (Aug. 24, 1990), available at <http://www.cb-cda.gc.ca/unlocatable-introuvables/licences-e.html>

<sup>146</sup> The same article states that the level of compensation will be determined by the law of the member state whose public institution made the use; by contrast, a work's "orphan" status is determined according to the law of the work's country of origin, see art. 3(3).

contemplates a licensing regime that may be administered, pursuant to regulations, by a state authority and/or through extended collective licensing. The scheme appears to anticipate that the license fees will be paid in before any missing rightholder reappears to claim compensation, because the law directs the establishments of regulations to resolve the treatment of unclaimed sums paid under the license.<sup>147</sup>

#### a. Hungary

Hungary anticipated the Orphan Works Directive by regulations adopted in 2009.<sup>148</sup> Like the U.K., Hungary has also based its orphan works regime on up-front licensing, but the sole entity empowered to grant licenses appears to be the Hungarian Patent Office. The HPO also rules on the withdrawal of licenses in the event the author becomes known; the HPO will also determine the extent of the remuneration due to the author.<sup>149</sup>

#### 2. Canada

Canada's orphan works provisions set out a regime for all potential uses of orphan works. Section 77 of the Copyright Act permits the Copyright Board of Canada to issue a non-exclusive license (subject to any terms the Board establishes) for use in Canada to a user whose reasonable efforts to locate a copyright owner have been unsuccessful. Section 77 applies to a published work, to a fixation of a performer's performance, published sound recording or a fixation of a communication signal in which copyright subsists. The CBC may grant a non-exclusive license to engage in a broad range of acts.<sup>150</sup>

The CBC will grant a license only if the user can show that s/he made every reasonable effort to find the copyright owner. There is no definition of "reasonable effort" in §77 and no formal standards have been established by CBC regulation to date (though the legislation permits the CBC to create the standard). Each licensing decision is usually issued within 30-45 days. In setting the license fee, the CBC generally bases the

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<sup>147</sup> See *id.* sec. 116C (4):

The regulations must provide for the treatment of any royalties or other sums paid in respect of a licence, including—

...

(c) the treatment of sums after that period (as *bona vacantia* or otherwise).

<sup>148</sup> 100/2009 (V. 8) Korm. rendelet az a' rva mu' egyes felhaszna' la' sainak engede' lyeze' se' re vonatkozo' re' szletes szaba' lyokro' l (Government Regulation on the Detailed Rules Related to the Licensing of Certain Use of Orphan Works), arts. 2(1), 2(2), 3 (Hung.), available at [http://www.hipo.gov.hu/English/jogforras/100\\_2009.pdf](http://www.hipo.gov.hu/English/jogforras/100_2009.pdf).

<sup>149</sup> *Id.* arts. 7, 8.

<sup>150</sup> See Copyright Act 2012 §77 (Can.).



rate on what the collecting society that would normally represent the rightholder charges for the type of use in question, and then orders that royalties be paid directly to that collecting society (the system assumes that every class of rightholder will have a corresponding collecting society).<sup>151</sup> Under §77, the subsequently appearing copyright owner may collect the royalties fixed in the license no later than five years after its expiration. The CBC allows collective societies to dispose the royalties as it sees fit for the general benefit of its members but the society undertakes to reimburse any person who establishes, within 5 years after the expiry of the license, ownership of the work covered by the license.<sup>152</sup>

### III Proposal for US copyright reform: Legislation in aid of Private Ordering

#### A. To what extent do we already have “Permitted but paid”?

If, rather than excusing altogether some socially beneficial or market failure non authorship uses of copyrighted works, requiring payment for them would be desirable, how might we achieve that end? In the first place, we should inquire to what extent we already have Permitted but Paid regimes. Some of these exist in the form of statutory compulsory licenses. Others may be emerging as a result of judicial reluctance in the wake of *eBay v. MercExchange*, to grant injunctive relief. Fuller examination suggests, however, that the Supreme Court’s decision has not lead to a generalized substitution of damage awards (judge-made compulsory licenses) in lieu of injunctions.

#### 1. Extant compulsory license regimes

The 1976 copyright act institutes compulsory licenses for mechanical rights (creation of sound recordings of non dramatic musical compositions for distribution of phonorecords to the public) (sec. 115); cable and satellite retransmissions (secs. 111, 119); non-interactive digital performances of sound recordings (sec 114.); public broadcasting (sec. 118); and jukeboxes (sec. 116). The statute also favors negotiated solutions in lieu of administrative rate-setting,<sup>153</sup> and accordingly provides

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<sup>151</sup> Phone conversation with Dr. Raphael Solomon, Director, Research & Analysis, Copyright Board Canada, Mar. 3, 2014. A list of CBC licenses can be found at: <http://www.cb-cda.gc.ca/unlocatable-introuvables/licences-e.html>. CBC refusals to grant an unlocatable right owner can be found at: <http://www.cb-cda.gc.ca/unlocatable-introuvables/denied-refusees-e.html>

<sup>152</sup> See <http://www.cb-cda.gc.ca/unlocatable-introuvables/brochure2-e.html>.

<sup>153</sup> See 17 U.S.C. secs. 803(b)(3) (three-month voluntary negotiation period following initiation of CRB rate-making proceeding); 805 (“General rule for voluntarily negotiated

in several instances for antitrust exemptions to enable industry-wide licensing negotiations; the compulsory licenses serve as back stops should private ordering fail.<sup>154</sup> The statute creates a Copyright Royalty Board to set the rates; a CRB proceeding can be both lengthy and expensive.<sup>155</sup> A recent Copyright Office study acknowledges that “Proceedings may involve numerous interested parties and often take two years or longer to complete. The CRB process allows for significant discovery, including document production and depositions, though it is not as broad as discovery permitted under the Federal Rules. Trials before the CRB, relatively formal in nature, typically involve multiple expert and nonexpert witnesses and voluminous economic evidence, and can last several weeks.”<sup>156</sup> Moreover, since rates may require revision over time, the statute also provides a schedule for revisiting prior rate settings.<sup>157</sup> Compulsory licenses have been criticized as excessively cumbersome and insufficiently responsive to technological and market evolutions.<sup>158</sup>

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agreements”). Of the ratemakings published in the Federal Register (which include those that settle and those that do not), nine have settled prior to the CRB’s final independent determination, while seven have not. (The CRB was created in 2004, and the first final rule promulgated by the CRB was in 2007).

<sup>154</sup> See *id.* § 114, 115(c)(3)(B), 116, 118; see also (describing inter-industry agreement and settlement on § 115 rates).

<sup>155</sup> See *id.* §. 803, 804 (setting out CRB proceedings in extensive detail). Regarding the cost and duration of CRB proceeding, see, e.g. Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services, concluded Spring 2013. Music Choice’s written statement alone in this case constituted 1,671 pages. It is available at <http://www.loc.gov/crb/proceedings/2011-1/>. Sirius XM’s statement in the same proceeding was 1,689 pages. Copyright royalty hearings can involve extensive expert testimony as well. In 2009’s Mechanical and Digital Phonorecord Delivery Rate Determination Proceeding, involved dozens of witnesses’ testimony from three interested parties at initial hearings and as part of rebuttal testimony; see 74 FR 6832 (Feb. 11, 2009), available at <http://www.loc.gov/crb/fedreg/2009/74fr4510.pdf#page=2>.

With respect to duration of a ratemaking proceeding, a contested ratemaking takes roughly two years; ratemakings with early settlements usually take less time, often around one year or even less. For the 2011 Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services (section 114 ratesetting for 2013--17), the ratemaking commenced on January 5, 2011 with notice in the Federal Register, and was concluded February 14, 2013.

<sup>156</sup> Copyright Small Claims: A Report of the Register of Copyrights 63 (September 2013), available at <http://www.copyright.gov/docs/smallclaims/>

<sup>157</sup> See, e.g., 17 USC sec. 801(b)(2) (adjustment of rates for cable retransmissions); 804(b)(4)(“A petition described in subsection (a) to initiate proceedings under section 801(b)(1) concerning the adjustment or determination of royalty rates as provided in section 115 may be filed in the year 2006 and in each subsequent fifth calendar year, or at such other times as the parties have agreed under section 115(c)(3) (B) and (C).”).

<sup>158</sup> See, e.g., Robert Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 *Colum. L. Rev.* 2655, 2669 (1994) (speculating that compulsory license regimes “may prevent the creation of technological and organizational innovations that would

2. The effect of *eBay*: Will failed fair use defenses yield only monetary remedies (de facto permitted-but-paid)?

While statutory compulsory licenses govern only those situations expressly designated by Congress, judge-made compulsory licenses (some even authorized in the Copyright Act<sup>159</sup>) could introduce desirable flexibility more broadly. The Ninth Circuit in *Universal City Studios v. Sony Corp. of America*, having found the use of the videotape recorder to record off-air television programming to infringe, posited a “continuing royalty” in lieu of an injunction.<sup>160</sup> (How judges would set the rate, and whether undertaking such a task would be desirable is another matter.<sup>161</sup>)

Arguably, the Supreme Court’s ruling in *eBay v MercExchange*, that irreparable harm should not be presumed upon proof of patent infringement, will chasten judges in all intellectual property infringement cases, and will lead to fewer grants of injunctive relief in copyright infringement cases as well.<sup>162</sup> Withholding injunctive relief would set the stage for inter-party negotiations, though it could also considerably reduce the bargaining power of the copyright owner who can no longer wield a credible threat to compel the defendant to cease its activities.

A review of post *eBay* copyright cases, however, indicates that denial of preliminary or permanent injunctive relief in copyright cases falls far short of general or systematic.<sup>163</sup> With respect to permanent injunctions, only five of 23 cases studied through 2013 withheld injunctive relief, despite plaintiff’s success on the merits, and with one exception,

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effectively administer the rights-clearing process.”); Paul Goldstein, *Copyright, Law & Contemp. Probs.* Spring 1992, at 79, 84.

<sup>159</sup> 17 U.S.C. sec 104A (d)(3)(B)

<sup>160</sup> 659 F.2d 963, 976 (9<sup>th</sup> Cir. 1981), rev.’d. 646 U.S. 417 (1984) (“when great public injury would result from an injunction, a court could award damages or a continuing royalty. This may very well be an acceptable resolution in this context.”)

<sup>161</sup> Cf. Benjamin Petersen, *Injunctive Relief in the Post eBay World*, 23 *Berkeley Tech. L. J.* 193 (2008) (surveying patent cases and contending that judicial rate-setting is undesirable).

<sup>162</sup> See, e.g., *Salinger v. Colting*, 607 F.3d 68 (2d Cir. 2010) (reading *eBay* to apply to copyright infringement cases; the case involved an unsuccessful fair use defense to the publication of an unauthorized sequel to *The Catcher in the Rye*). For a critical view of *eBay* and its likely impact in copyright cases, see, e.g., Mark P. Gergen, John M. Golden & Henry E. Smith, *The Supreme Court’s Accidental Revolution? The Test for Permanent Injunctions*, 112 *Colum. L. Rev.* 203 (2012).

<sup>163</sup> See Jairui Liu, *Copyright Injunctions After eBay: An Empirical Study*, 16 *Lewis & Clark L. Rev.* 215 (2012) (analyzing cases to 2010). For a review of post-*eBay* awards (or withholding) of injunctive relief in intellectual property cases generally, through 2013, I thank Trey Brewer, Columbia Law School class of 2014.

none involved a finding of likely future infringement.<sup>164</sup> Regarding preliminary injunctions, only three of ten decisions found a likelihood of success on the merits, but declined to find sufficient irreparable harm to warrant injunctive relief.<sup>165</sup> Thus, looking to the courts to implement Permitted but Paid by withholding injunctive relief to copyright owners whose substantive claims have succeeded does not seem a likely course.

B. How much can one achieve by private ordering without legislation? Is court-ordered “license it or lose it” an answer?

On the other hand, the prospects may look different if the court makes success on the merits turn on the offer of a license, as did the district court in *Cambridge University Press v. Georgia State University*.<sup>166</sup> The impact on the copyright owner’s bargaining position may be less substantial than first appears, at least where the plaintiff was seeking to be paid for the use rather than to prevent it altogether, because a defendant who declines a reasonable license may be subject to an award of substantial statutory damages, as well as injunctive relief.<sup>167</sup> But the

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<sup>164</sup> See *Christopher Phelps & Associates, LLC v. Galloway*, 492 F.3d 532 (4th Cir. 2007) (Irreparable harm shown, as well as inadequacy of monetary damages, but balance of hardship and public interest not proven); *Magna-RX, Inc. v. Holley*, CV05-3545-PHX-EHC, 2008 WL 5068977 (D. Ariz. Nov. 25, 2008) (plaintiff failed to give any evidence regarding irreparable harm, possibly in mistake belief that irreparable harm was presumed after a finding of infringement); *Bouchat v. Baltimore Ravens Ltd. P’ship*, CIV.A. MJG-08-397, 2011 WL 5445947 (D. Md. Nov. 9, 2011) (no irreparable harm shown because the logo which the Ravens unlawfully used had no commercial value other than its use by the Ravens; the judge ordered the two parties to negotiate a licensing agreement--the only post eBay copyright decision so far to have ordered negotiation); *Bean v. John Wiley & Sons, Inc.*, CV 11-08028-PCT-FJM, 2012 WL 1078662 (D. Ariz. Mar. 30, 2012) (no irreparable harm in this case because plaintiff--a photographer--could not prove the likelihood of future infringement. The books which unlawfully contained his photographs were out of print); *Brighton Collectibles, Inc. v. Pedre Watch Co.*, Case No.: 11cv00637 AJB (WVG) (S.D. Cal. Oct. 21, 2013) (no irreparable harm because no proof of likely future infringement and inadequate proof of reputational harm).

<sup>165</sup> See, *Bethesda Softworks, L.L.C. v. Interplay Entm't Corp.*, 452 F. App'x 351 (4th Cir. 2011) (district court was unconvinced by plaintiff’s showing of irreparable harm); *Frerck v. John Wiley & Sons, Inc.*, 850 F. Supp. 2d 889 (N.D. Ill. 2012) (photographer gave a limited license to a textbook publisher to publish his photos; the terms of the license were exceeded by the textbook publisher. Court found damages constituted sufficient relief in light of industry practice of retroactive licenses covering uses not originally bargained or paid-for); *Grant Heilman Photography, Inc. v. John Wiley & Sons, Inc.*, 864 F. Supp. 2d 316 (E.D. Pa. 2012) (very similar to Frerck).

<sup>166</sup> *Supra* notes 49-51 and accompanying text (analyzing the “license it or lose it” approach of the Georgia State court).

<sup>167</sup> Statutory damages are available if the work was registered with the Copyright Office prior to its infringement, 17 U.S.C. sec. 412; professional publishers tend systematically to register. Of course, no damages, statutory or actual, may be awarded against a state entity, such as Georgia State University, see *Coll. Sav. Bank v. Fla. Prepaid*

problem of assessing whether the license the plaintiff offered was reasonable may thrust courts back into the rate-making business, to which generalist federal judges may be less well-suited than the specialized Copyright Royalty Board.

C. Legislation to enable private ordering?

If full-blown administrative ratemaking is too expensive and takes too long, but license-it-or-lose-it presents the problem of excessive judicial intervention (or, conversely, for those judges disinclined to second-guess proposed licensing fees, excessive deference to copyright owners), perhaps a simplified ratemaking procedure could provide a happy medium. In addition, the procedure should be designed to ensure that authors share equally in the remuneration. I envision a combination of two models, one based on voluntary negotiation of licenses, inspired by a proposed amendment to section 114 of the copyright act's provision on compulsory licenses for non interactive digital transmission of sound recordings;<sup>168</sup> but backed up by Copyright Royalty Board-administered last-best-offer, or "baseball," arbitration. With respect to the latter solution, it is necessary also to consider the institutional setting for the rate determinations as well as the application of baseball arbitration to the copyright context. Finally, any provision for a "backstop" of administrative ratemaking should also contain a "sunset" clause requiring legislative renewal every five years (otherwise the ratemaking authorization expires), in order to promote a transition to market licensing in the event that changing conditions make such licensing feasible.

At the threshold, however, we need to identify the uses to which the proposed regime would apply. Recalling our two categories of fair uses which, I have contended, should not remain uncompensated, there are non profit public library and educational uses which have in effect benefitted from fair use as social subsidy. And there are uses, generally massive in scope, for which market licensing solutions have not yet been devised. Our review of comparative law reveals that remuneration schemes involving voluntary or state-supported licensing mechanisms generally correspond to these broad categories. But a principal difference between the United States and most other countries studied is the prevalence of collective licensing societies outside the US. Indeed, as the

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Postsecondary Educ. Expense Bd., 527 U.S. 666 (1999) (Lanham Trademark Act); Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627 (1999) (Patent Act).

<sup>168</sup> H.R. 3219, 113<sup>th</sup> Cong. (2013-14) ("Free market royalty act").

French legislation on mass digitization of books illustrates, implementation of the scheme required the creation of a collecting society dedicated to administering the licenses.<sup>169</sup> Apart from the fields of public performance rights in non dramatic musical compositions, where ASCAP and BMI collectively license users large and small (and operate under antitrust consent decrees<sup>170</sup>), and, to a lesser extent, reprographic and digital reproduction rights in books licensed by the Copyright Clearance Center, collective management of authors' rights is far less pervasive here than in most other copyright-producing countries. As a result, unless new collective management societies emerge, or unless the major rightholders of particular kinds of repertory may combine without antitrust constraints to offer licenses across the repertory,<sup>171</sup> implementation of voluntary licensing mechanisms is likely to encounter daunting transactions costs. Moreover, where multiple users comprise the class of potential licensees it may also be necessary to consider how the class may be represented in the negotiations.<sup>172</sup> State-supported backstops to voluntary licensing can of course relieve the antitrust constraints on rate-setting (as is already the case for certain compulsory licenses<sup>173</sup>), but those solutions take us out of the realm of private ordering, and into legislation to establish an administrative framework to offer a rate-setting mechanism that is faster, cheaper, and, to the extent possible, closer to market solutions than the current panoply of compulsory licenses affords.

#### 1. H.R. 3219 "Free Market Royalty Act"

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<sup>169</sup> Supra Part II.C. Similarly, the rejected Google Books settlement would have created a "Book Rights Registry" collecting society to grant licenses to digitize out of commerce books and to distribute the collected monies to authors and publishers. The Authors Guild v. Google Inc., 770 F. Supp. 2d 666, 671-72 (S.D.N.Y. 2011).

<sup>170</sup> 17 U.S.C. sec. 115(c)(3)(B).

<sup>171</sup> See, e.g., Sound Exchange, a society representing sound recording producers and performers, that collects and distributes the compulsory license royalty for non interactive webcasting under sec. 114. See <http://www.soundexchange.com/about/>

<sup>172</sup> For example, in setting the license fees for public performances of non dramatic musical compositions by bars and restaurants, ASCAP and BMI negotiate with the restaurateurs' trade association, see, e.g., Legislative Information & Representation, Minn. Restaurant Ass'n, <http://www.hospitalitymn.org/displaycommon.cfm?an=1&subarticlenbr=85#BMI> (last visited Apr. 27, 2014) (noting that members of Minnesota Restaurant Association receive BMI music license with discounted rates, though each member must still obtain individual license). In the royalty negotiations for video-programing licenses, small cable operators may designate a Bargaining Agent, see In re DIRECTV Sports Net Pittsburgh, LLC v. Armstrong Utilities, Inc., CSR-8480-P (FCC, Aug. 31, 2011). discussed infra.

<sup>173</sup> See supra note 155 and accompanying text (describing antitrust exemptions in extant compulsory licensing regimes).

In 1995 and again in 1998, Congress amended the copyright act to implement a digital public performance right in sound recordings. The legislation distinguished interactive from non interactive digital transmissions, subjecting the latter to compulsory licensing. The regime directed the equal division of the proceeds of the compulsory license among record producers and performers.<sup>174</sup> The statutory provisions also permitted copyright owners and webcasters to reach private agreements on license rates;<sup>175</sup> as a result, many performers may not in fact receive an equal share of the licensing revenues.<sup>176</sup> An amendment proposed in December 2013, the “free market royalty act,”<sup>177</sup> would, among other

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<sup>174</sup> 17 U.S.C. sec. 114(f),(g)(2); see generally Jane C. Ginsburg, Copyright Legislation for the “Digital Millennium”, 23 Colum.-VLA J. L. & Arts 137, 166-70(1999) (describing and analyzing 1995 and 1998 amendments).

<sup>175</sup> 17 U.S.C. sec. 114(f)(3).

<sup>176</sup> See Kristelia A. García, Private Copyright Reform 4 (GW Law School Public Law and Legal Theory Paper No. 2013-121, 2013) (“These private content licensing agreements circumvent both the statutory license and relevant collective rights organization . . . and in so doing, . . . potentially alter the rights and entitlements of non-parties in several significant ways,” including “deny[ing] artist royalty payments to which they are legally entitled.”); see also Ben Sisario, Sirius’s Move to Bypass a Royalty Payment Clearinghouse Causes an Uproar, N.Y. Times (Nov. 6, 2011), <http://www.nytimes.com/2011/11/07/business/media/siriuss-move-to-bypass-royalty-agency-causes-uproar.html> (noting that private agreements “could result in less money and more complications for artists,” largely due to a lack of clarity as to how the author receives payment); Musicians’ Digital Performance Royalties at Risk, Future of Music Coalition, <http://futureofmusic.org/blog/2011/10/28/musicians-digital-performance-royalties-risk> (last visited Apr. 27, 2014) (arguing that direct licenses can hurt performers because they may not receive direct payments, could be paid less, will not be part of negotiations, and could be forced to accept licenses allowing for more expansive use of their music).

<sup>177</sup> H.R. 3219 provides in relevant part:

(e) EFFICIENCY OF LICENSING.—

(1) COLLECTIVE NEGOTIATION FOR NON- INTERACTIVE SERVICES.— Pursuant to section 106(6), and notwithstanding any other provision of law, any noninteractive services performing sound recordings publicly by means of an audio transmission may collectively negotiate and agree to royalty rates and license terms and conditions for the performance of such sound recordings.

(2) ONE-STOP LICENSING FOR NONINTERACTIVE SERVICES.—

(A) NEGOTIATION OF LICENSES BY COMMON AGENT.—Pursuant to section 106(6), and notwithstanding any other provision of law, for licenses for noninteractive audio transmissions, SoundExchange, Inc., or any successor entity is designated as the sole common agent to negotiate, agree to, pay, and receive payments under this section. If a license for noninteractive audio transmissions is agreed to by such common agent, copyright owners of sound recordings may subsequently negotiate and agree to royalty rates and license terms and conditions with any noninteractive services performing sound recordings publicly by means of an audio transmission for the performance of such sound recordings.

things, replace the current compulsory license regime for non interactive digital transmissions with licenses covering digital negotiated between a “common agent” representing the copyright owners (currently Sound Exchange) and a collective representative of the webcasters. The negotiations would proceed “notwithstanding any other provision of law,” and therefore would be exempt from antitrust constraints. The amendment preserves current section 114’s even division of the proceeds of the license between producers and performers, but importantly makes the performers’ share mandatory by requiring that the webcaster pay the common agent 50% of the royalties the webcaster owes under the license, and further instructing that the common agent “shall distribute” those payments to the performers.

The proposed amendment also establishes a compulsory license “backstop for public and non commercial stations” in the event that

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(B) DIRECT PAYMENT AND EQUAL COMPENSATION.—The common agent under sub-paragraph (A) shall make distributions directly to the following recipients from payments collected under this section as follows:

(i) 50 percent shall be paid to the copyright owner.

(ii) 45 percent shall be paid to featured recording artists.

(iii) 5 percent shall be paid to nonfeatured musicians and vocalists (through the American Federation of Musicians and Screen Actors Guild-American Federation of Television and Radio Artists Intellectual Property Rights Distribution Fund, or their successors).

(f) PAYMENTS FROM INDIVIDUAL LICENSES FOR NONINTERACTIVE AUDIO TRANSMISSIONS.—In the case of a license granted by the copyright owner of a sound recording to a noninteractive service performing sound recordings publicly by means of an audio transmission, such service shall pay to the common agent described in subsection (e) receipts from the licensing of such transmissions in an amount equal to 50 percent of the total royalties and other compensation that the service is required to pay for such transmissions under the applicable license agreement. Such common agent shall distribute such payments in proportion to the distributions provided in clauses (ii) and (iii) of subsection (e)(2)(B), and such payments shall be the sole payments to which featured and nonfeatured artists are entitled by reason of such transmissions under the license with that service.

(g) BACKSTOP FOR PUBLIC AND NONCOMMERCIAL STATIONS.—

(1) ESTABLISHMENT OF RATES AND TERMS.— If royalty rates and license terms and conditions for the audio transmission or retransmission of a non-subscription broadcast consisting solely of non-commercial educational and cultural radio programs are not negotiated and agreed upon collectively under subsection (e) between the common agent and a noncommercial educational broadcast station funded on or after January 1, 1995, under section 396(k) of the Communications Act of 1934 (47 U.S.C. 396(k)), a proceeding under chapter 8 of this title shall determine the rates and terms for such transmissions and retransmissions. The Copyright Royalty Judges shall establish such rates and terms that most clearly represent the rates and terms that would have been negotiated in the marketplace between a willing buyer and a willing seller. In determining such rates and terms, the Copyright Royalty Judges shall base their decision on economic, competitive, and programming information presented by the parties.



royalty rates and license terms “are not negotiated and agreed upon collectively under subsection (e) between the common agent and a noncommercial educational broadcast station . . .” In that case, the Copyright Royalty Board will set rates that are supposed to emulate willing buyer-seller marketplace rates, but one may suppose that the failure of the parties to agree on a license means that the rates are likely to fall short of true market rates. The proposed amendment does not specify whether the CRB-designated royalty will be shared equally among producers and performers, but that may be implicit.

The “free market royalty act” offers an attractive template for Permitted but Paid licenses. By suspending antitrust constraints, and by encouraging the development of a user-side collective complement to the copyright interests’ “common agent,” the bill would stimulate bilateral industry-wide agreements, thus reducing transaction costs. Were this approach to be generalized to sectors in which copyright owner-author common agents are less prevalent (or non-existent) it would be necessary to foster the creation of such bargaining entities. The mandatory set-aside for creators is another very appealing feature.

But what if the collective representatives fail to agree? Should the “backstop” measures of the “free market royalty act” also be generalized, not only to non-commercial users (subsidy uses), such as non-profit libraries and educational institutions, but to all? Is it justified to extend the “backstop” to commercial users if the basis of their “Permitted but Paid” license is market failure, given that an amendment inspired by the “Free Market Royalty Act” would make bargaining easier by allowing the aggregation of owners and users and negotiation through respective representatives? If these devices effectively cure market failures, then a compulsory license backstop would not be warranted. Moreover, were compulsory licensing an option should negotiations fail, actors who believe they have more to gain from a compulsory license regime than from a negotiated license might not bargain in good faith. Finally, a CRB proceeding is currently both expensive and time-consuming.<sup>178</sup> Accordingly, whomever the beneficiaries of compulsory license fall-back, the current regime might also warrant some modifications. The technique of last best-offer arbitration might prove adaptable to the task.

## 2. Baseball Arbitration: Institutional Constraints

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<sup>178</sup> See *supra* notes 153—55 and accompanying text.

Before addressing how a last-best-offer “backstop” would apply to copyright licenses, it is necessary to confront possible constraints on Congress’ power to amend the Copyright Act to compel the parties to submit to binding arbitration.

The Copyright Royalty Board is an arm of the Copyright Office, which is a branch of the Library of Congress. The CRB already is empowered to set rates for the various compulsory licenses set out in the copyright act; the proposed scheme, albeit what one might call “ratemaking light,” seems well within the Board’s attributions. Because copyright is federal statutory subject matter, and “the claim at issue derives from a federal regulatory scheme,”<sup>179</sup> copyright claims can reasonably be described as claims involving “public rights” suitable for adjudication by non-Article III tribunals.<sup>180</sup> With respect to the appointments clause, CRB judges have already been held “inferior officers” terminable at will by their “head of department” (in this case, the Librarian of Congress), and therefore their appointments do not violate separation of powers.<sup>181</sup>

Because the proposed regime relies on binding and compulsory arbitration, the scheme exceeds the bounds imposed by the Administrative Procedure Act. Without an amendment to the Copyright Act to mandate arbitration in relevant cases, the Library of Congress’ power to administer arbitrations would be limited to what the APA allows: all arbitrations would require the consent of both parties, the arbitrators would be agreed

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<sup>179</sup> *Stern v. Marshall*, 131 S.Ct. 2594 (2011) characterizing public rights cases as “cases in which the claim at issue derives from a federal regulatory scheme, or in which resolution of the claim by an expert government agency is deemed essential to a limited regulatory objective within the agency’s authority.” 131 S.Ct. at 2613.

<sup>180</sup> Cf. Report of the Register of Copyright, Copyright Small Claims, *supra*, at 40–41 (“Because the rights and remedies for copyright are fixed by Congress pursuant to an overarching statutory scheme . . . at least some types of small copyright claims should be amenable to non-Article III resolution.”). The Supreme Court’s decisions in *Thomas v. Union Carbide*, 473 U.S. 568 (1985) and *Stern v. Marshall*, 131 S.Ct. 2594 (2011) suggest that a copyright licensing dispute would be properly cast as a public rights case, and that agency-administered arbitration would be appropriate. Indeed, the particular statute in question in *Thomas v. Union Carbide* involved the constitutionality of a Congressional statute which selected binding arbitration (with limited judicial review) as the means for dispute resolution for participants in a federal pesticide registration scheme. 473 U.S. at 573-75.

<sup>181</sup> *Intercollegiate Broadcasting System v. Copyright Royalty Board*, 684 F.3d 1332 (D.C. Cir. 2012), following *Free Enterprise Fund v. PCAOB*, 130 S.Ct. 3138 (2010), which barred “double for-cause removal.”

upon by both parties, and the parties would have to agree on all issues submitted to the arbitrator.<sup>182</sup>

By contrast, specific statutory provisions can confer the requisite authority. For example the Telecommunications Act of 1996 and the Indian Gaming Regulatory Act allow for the FCC and Department of the Interior, respectively, to authorize arbitration upon the request of only one party during negotiations.<sup>183</sup> The statute does not need to specify the type of arbitration used by the agency; the agency is at liberty to promulgate rules developing its own procedures for arbitration. For example, FCC rules promulgated pursuant to the Telecommunications Act instruct that “An arbitrator, acting pursuant to the Commission's authority under section 252(e)(5) of the Act, shall use final offer arbitration,” subject to carefully delineated exceptions.<sup>184</sup>

## 2. How Baseball Arbitration Could Apply to “Permitted but Paid”

To assess how a baseball arbitration fall-back could apply to a “permitted but paid” regime in copyright law, it may help to look to experience in the Federal Communications Commission. The FCC context admittedly differs from the licenses posited here, because the FCC has employed baseball arbitration as a condition on authorizing the merger of cable operators: when the merger would otherwise result in conferring

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<sup>182</sup> See 5 U.S.C. Sec. 575(a)(1) (decision to arbitrate must be voluntary on the part of all parties to the arbitration; Sec. 575(a)(1)(A) and (B) (any party can limit the issues it agrees to submit to arbitration; this could mean that a party may refuse to arbitrate unless the decision is limited to a range of outcomes); Sec. 577(a) (the parties to an arbitration are entitled to participate in selecting an arbitrator; this could result in naming arbitrators who are not CRB judges).

<sup>183</sup> See 47 U.S.C. § 252(b); 25 U.S.C. § 2710(d)(7)(B)(iv).

<sup>184</sup> 47 C.F.R. § 51.807.

In 2001, the Senate proposed amending title 49 of the United States Code to authorize the Secretary of Transportation to mandate baseball-style arbitration in the case of labor disputes between an air carrier and its employees---the Secretary could forestall a strike by compelling the parties to submit to binding baseball-style arbitration. See Airline Labor Dispute Resolution Act of 2001, S. 1327, 107th Cong. (2001). This bill ultimately died in committee.

Finally, the timing of the arbitration may carry Seventh Amendment implications. If a copyright holder and would-be licensee fail to agree voluntarily upon a price for a license, but seek administrative dispute resolution in lieu of initiating an infringement action, there would appear to be no constitutional impediment to pursuing an administrative remedy. If, however, arbitration were sought after the filing of an infringement action, the Supreme Court's decision in *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340 (1997), that litigants in a copyright dispute are entitled to a trial by jury, even when statutory damages (a seemingly “public” right conferred by Congress) are the only damages sought, might entitle either party to resist the administrative procedure on the ground that the court action triggers that party's right not only to a judicial rather than administrative remedy, but to a jury trial as well.

too much power over video programming, the operator must license the programming to local carriers at a reasonable rate. Baseball arbitration provides the means by which the FCC sets that rate.

If the contexts are by no means identical, they are arguably analogous: the impetus for U.S. courts to find fair use in many of the social subsidy or market failure contexts for which licensing mechanisms exist in other countries is to prevent the copyright law from conferring power over content to the unreasonable prejudice of certain public services or technological advances. (Because the essence of copyright - as a property right - is control over the exploitations comprised within the statutory exclusive rights, the author's or rightholder's control over content remains in most cases the appropriate objective of the copyright system; the prejudice that a mandatory arbitration system offsets must therefore be unreasonable.)

A fundamental principle behind baseball-style arbitration is to encourage private ordering and incentivize settlement. By requiring the arbitrator to select one of two proposed offers, baseball arbitration urges the parties to avoid extremes by confronting them with the risk that the arbitrator will accept the other party's offer. The academic literature differs on whether baseball-style arbitration does successfully push parties toward more "reasonable" offers, though what empirical data there is seems to suggest that offers do converge.<sup>185</sup>

In addition, this arbitration mechanism could at least in part avoid the extensive economic and market analysis required in "willing buyer/willing seller" ratemaking in order to determine the proper market rate. "Willing buyer/willing seller" ratemaking, as currently administered by the Copyright Royalty Judges, involves presentation of written and testimonial direct evidence and rebuttal testimony, legal briefing,

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<sup>185</sup> Academic studies of final-offer arbitration in the context of public-sector union negotiations indicate that the procedure does indeed encourage settlement. See Elissa A. Meth, Note, *Final Offer Arbitration: A Model for Dispute Resolution In Domestic and International Disputes*, 10 *Am. Rev. Int'l Arb.* 383 (1998). For the original baseball context, see Jonathan M. Conti, *The Effect of Salary Arbitration on Major League Baseball*, 5 *Sports Law. J.* 221, 232—34 (1998) (suggesting that MLB's arbitration procedure has "achieved its goal" of "getting the parties to either settle their cases prior to arbitration, or at least to submit figures that are within the same ballpark."). Josh Chetwynd notes that while labor relations theorists endorse the view that final-offer arbitration encourages convergence in the parties' proposals, decision scientists often disagree. Josh Chetwynd, *Play Ball? An Analysis of Final-Offer Arbitration, Its Use in Major League Baseball and Its Potential Applicability to European Football Wage and Transfer Disputes*, 20 *Marq. Sports L. Rev.* 109, 116 (2009). Chetwynd acknowledges, however, that "empirical data had indicated that convergence was often occurring." *Id.*

arguments of counsel, and judicial review.<sup>186</sup> As a result, the most recent ratemaking took over five years from the initial notice-and-comment period until the Judges' final determination.<sup>187</sup>

Admittedly, some final-offer arbitration mechanisms are similarly expensive and time-consuming. For example, the FCC proceedings described above often produce large expenses for both parties arbitrating, and though it is supposed to take place over a short period of time (30 days from notice to arbitration decision, and then 30 days for a decision from the FCC, if a party appeals), parties are allowed to alter the time limits as they see fit.<sup>188</sup> Others, such as the procedure in Major League Baseball, are relatively speedy and efficient.<sup>189</sup>

Another issue concerns disparities in bargaining power. Final-offer arbitration appears to diminish parties' inherent bargaining disparity in the baseball context, as well as in the case of public-sector employee unions. In Major League Baseball, one recent study indicated that the players (the labor side) were successful in 42% of arbitration proceedings that went to a final hearing.<sup>190</sup> For public-sector unions, one study examined New Jersey cases and found the party with weaker bargaining power---the unions---won roughly two-thirds of the time.<sup>191</sup> This evidence

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<sup>186</sup> See Determination of Royalty Rates for Digital Performance Right in Sound Recordings and Ephemeral Recordings, 79 Fed. Reg. 23,102, 23,103 (April 25, 2014).

<sup>187</sup> Id. at 23,102.

<sup>188</sup> FCC, Memorandum Opinion and Order, In the Matter of Applications of Comcast Corporation, General Electric Company and NBC Universal, Inc. For Consent to Assign Licenses and Transfer Control of Licensees (Jan. 20, 2011), app. A at 129 ("The parties may agree to modify any of the time limits set forth[in the arbitration rules] . . .").

<sup>189</sup> See Jonathan M. Conti, The Effect of Salary Arbitration on Major League Baseball, 5 Sports Law. J. 221, 228-29 (1998) (describing annual two-month window for arbitration proceedings in Major League Baseball).

<sup>190</sup> Amy Farmer et. al., The Causes of Bargaining Failure: Evidence from Major League Baseball, 47 J.L. & Econ. 543, 562 (2004). However, that author attributes these outcomes to the players being less risk-averse than owners in such negotiations, and consequently more often on the losing side, see id. at 562 ("We find that players tend to exhibit greater aggression than clubs and that ultimately players fare worse when their aggression leads them to arbitration. Our evidence also suggests that players learn, because previously eligible players fare slightly better than do those in first-time negotiations.").

<sup>191</sup> Orley Ashenfelter and David E. Bloom, Models of Arbitrator Behavior: Theory and Evidence, National Bureau of Economic Research (unpublished working paper), at \*16 (1983). Ashenfelter and Bloom credited this victory rate to more reasonable, risk-averse offers submitted by the New Jersey unions. For a more recent study, see Orley Ashenfelter & Gordon B. Dahl, Strategic Bargaining Behavior, Self-Serving Biases, and the Role of Expert Agents: An Empirical Study of Final-Offer Arbitration 2 (Princeton Law & Public Affairs, Working Paper No. 04-009, 2003), available at <http://ssrn.com/abstract=559188> (finding that the "spread" between the two offers

suggests that parties in a relatively weak bargaining position can nevertheless succeed in baseball—style arbitration simply by avoiding risk and submitting reasonable bids. Moreover, designation of a “common agent” to represent a group of weaker parties may further reduce the bargaining disparities.

## Conclusion

Fair use has gone off the rails with the transformation of "transformative use" from a factor fostering new creativity to one favoring new copyright-dependent business models and socially beneficent reiterative uses. We should cease muddling authorship-grounded fair uses with judge-made exceptions whose impetus derives from distinct considerations. I have, moreover, suggested that those exceptions should not always produce free passes. Instead, I have proposed a middle ground: many of the current social subsidy fair uses and market failure fair uses should be "permitted but paid." This article has recommended implementing that proposal through statutorily-facilitated bargaining between agents representing copyright owners and users, backed up by last best-offer arbitration before the Copyright Royalty Board. Whichever method employed to set the rates for Permitted but Paid uses, the copyright law should ensure that authors share in any statutory or privately-ordered remuneration scheme. Were “Permitted but Paid” an option, we would not be lured by a dichotomy falsely pitting authors against a perceived social good: The licensing mechanism would allow both broader dissemination and provide payment to authors. For many redistributive uses, “Permitted but Paid” should replace fair use for free.

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decreased from over 2% to less than 1% over a period of roughly 20 years, suggesting that parties do indeed converge on offers over time.