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Letter from the U.S.: Exclusive Rights, Exceptions, and Uncertain Compliance with International Norms – Part II (Fair Use)

Jane C. Ginsburg
Columbia Law School, jane.ginsburg@law.columbia.edu

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**The Center for Law and Economic Studies
Columbia University School of Law
435 West 116th Street
New York, NY 10027-7201**

(212) 854-3739

**Letter from the US: Exclusive Rights, Exceptions, and
Uncertain Compliance with International Norms – Part II (fair use)**

Jane C. Ginsburg
Columbia University School of Law

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Letter from the US: Exclusive Rights, Exceptions, and Uncertain Compliance with International Norms – PART II (fair use)

Jane C. Ginsburg, Columbia University School of Law*

Abstract

This survey of recent U.S. fair use decisions examines the domestic evolution of the doctrine, particularly in light of the significant expansion of noninfringing “transformative” uses. The article also considers the U.S.’ compliance with its international obligations under the Berne Convention and the TRIPs Accord, and inquires whether the substantial enlargement of the application of the U.S. fair use exception exceeds the leeway that the Berne Convention, art. 9(2), WCT art. 10, and TRIPs art. 13 grant to member states to provide for exceptions and limitations to copyright.

The first installment of the “Letter from the US” addressed U.S. compliance with the international “making available” right in the wake of the U.S. Supreme Court’s decision in *American Broadcasting Co. v. Aereo, Inc.* This installment continues the theme of U.S. compliance with its international obligations under the Berne Convention and the TRIPs Accord, and inquires whether the substantial expansion of the U.S. fair use exception exceeds the leeway that the Berne Convention, art. 9(2), WCT art. 10, and TRIPs art. 13 grant to member states to provide for exceptions and limitations to copyright.

II. The expansion of the fair use defense and compliance with international norms

A. Relevant texts

Art. 9(2) of the Berne Convention gives member states a framework within which national legislation may create exceptions to and limitations on the right of reproduction. The so-called “three step test” provides:

It shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.

* Thanks for research assistance to Nell Ethridge, Columbia Law School class of 2015.

The TRIPS Agreement, art. 13, has generalized the three-step test to all rights under copyright, as has art. 10 of the WIPO Copyright treaty. A World Trade Organization dispute resolution panel has interpreted the three steps to mean:

(1) That the exemption is limited to a narrow and specifically defined class of uses [“certain special cases”], but the member state need not demonstrate or justify the local policy that underlies the exception;

(2) That the exempted use does not compete with an actual or potential source of economic gain from the ways right holders normally exercise rights under copyright [“conflict with a normal exploitation of the work”]; and

(3) That the exempted use does not unreasonably harm right holder interests that are justifiable in light of general copyright objectives [“not unreasonably prejudice the legitimate interests of the rightholder”]; the unreasonableness of the harm may be allayed if the member state imposes a compensation-ensuring compulsory license in lieu of an outright exemption.¹

While the U.S. copyright law incorporates a variety of specific exceptions,² the fair use provision is both the most longstanding and the most broadly applicable of all U.S. exceptions to copyright infringement. Originally a judge-made doctrine devised in the mid-19th century, albeit with British antecedents dating to the mid-18th century, fair use was codified in Congress’ general revision of the copyright act in 1976.³ Section 107 of the U.S. Copyright Act applies to all works of authorship and to all exclusive rights. It provides:

§ 107 . Limitations on exclusive rights: Fair use

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

¹ WTO Panel, WT/DS160/R – 15 June 2000 United States – Section 110(5) of the U.S. Copyright Act. I have previously commented on the WTO Panel decision in the RIDA, see *Toward Supranational Copyright Law? The WTO Panel Decision and the “Three Step Test” for Copyright Exceptions*, 187 REVUE INTERNATIONALE DU DROIT D’AUTEUR 3 (January 2001), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=253867

² See 17 U.S.C. secs. 108-122. The WTO Panel examined the exception to the public performance right set out at sec. 110(5).

³ Fair use is codified at 17 U.S.C. sec. 107. *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4,901), is generally credited as the first U.S. caselaw iteration of the doctrine; *Folsom* synthesized a century of British caselaw expounding the “fair abridgement” doctrine. For a full analysis of the English decisions, see Isabella Alexander, *COPYRIGHT AND THE PUBLIC INTEREST IN THE NINETEENTH CENTURY* (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); on *Folsom v. Marsh* and its role in U.S. fair use law, see, e.g., 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).

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

The potential disparities between the U.S. fair use exception and the three-step test have long attracted the attention of scholars.⁴ First, section 107 on its face is not limited to “certain special cases.” Second, while the fourth fair use factor’s consideration of the impact of the use upon the potential market for the work seems to echo the second of the three steps (not conflict with a normal exploitation), section 107 does not offer a third step fall-back of substituting compensation for control over the use at issue. Rather, 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.” As a result, either the copyright owner can collect damages and/or stop the use, or the user not only is dispensed from obtaining permission, but also owes no compensation for the use.

While section 107 may on its face suggest some tension with the international framing norm for copyright exceptions, U.S. authorities could reasonably contend that, in practice, courts’ actual application of the exception remained consonant with international standards.⁵ Recent U.S. fair use decisions, however may challenge the credibility of that assertion.

B. U.S. Fair Use cases since 2008

Fair use cases may be divided into two parts; uses in which the defendant adds new creativity to the copied material; and uses in which the defendant repurposes the copied material for a different audience or objective. U.S. copyright law has long recognized fair use as an exception favoring new creativity. Justice Story’s 1841 decision in *Folsom v. Marsh*, to which

⁴ See, e.g., Sam Ricketson and Jane C. Ginsburg, *International Copyright and Neighbouring Rights: The Berne Convention and Beyond*, para 13.33 (2006); Ruth Okediji, *Toward an International Fair Use Standard*, 39 *Columbia Journal of Transnational Law* 75, 161-62 (2000); James Bongiorno, *Fair Use of Copyrighted Images After Perfect 10 v. Amazon.com: Diverging From Constitutional Principles & United States Treaty Obligations*, 12 *Touro Int’l L. Rev.* 107, 153-54 (2009).

⁵ Council for Trade-Related Aspects of Intellectual Property Rights, *Review of Legislation on Copyright and Related Rights, United States*, IP/Q/USA/1, at 4 (Oct. 30, 1996) (U.S. delegation’s report to TRIPS Council asserts that “The fair use doctrine of US copyright law embodies essentially the same goals as Article 13 of TRIPS, and is applied and interpreted in a way entirely congruent with the standards set forth in that Article.”).

many assign the doctrine's ancestor attribution, refined the British rule of "fair abridgement" 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." The ensuing century and a half of fair use cases almost 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. In controversies involving scholarship, criticism and commentary (including parody), the caselaw thus calibrated the basic moving parts of the traditional fair use doctrine: authorship, public benefit, economic impact. The progress of learning 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.

Over the last twenty years, US fair use cases involving follow-on authorship have largely turned on the 'transformative' character of the contribution, as well as on economic impact, though US courts sometimes conflate the two factors, equating 'transformative' works or purposes with those that do not substitute for the copyright owner's normal markets for the work.⁶ Indeed, the Second Circuit has developed the concept of a transformative market, for exploitations that fall outside the copyright owner's zone of exclusivity: "transformative uses do[] not count because such uses, by definition, do not serve as substitutes for the original work."⁷ The counterpoint to a transformative market (favoring fair use) is 'a traditional license market', that is, a 'traditional, reasonable, or likely to be developed market' (disfavoring fair use).⁸ Courts have inquired into whether the plaintiff is currently exploiting the market, or whether the market is one that similarly situated copyright owners would normally exploit. Thus, the traditional fair use inquiry balances the new expressive use (promoting the second-comer's authorship) against the first author's returns for her intellectual labours.

More recently, however, U.S. courts have extended the fair use exception to exempt enterprises or uses that make the work more widely available. These redistribution "fair uses" are different from traditional fair uses. They do not directly produce new works. What motivations therefore underlie non authorship-based exceptions? The caselaw indicates two broad impetuses. First, a category one might call "subsidy," in which redistributive copying for non-commercial purposes (generally by educational institutions or libraries) receives a free pass (subject to a variety of limitations). Second, and primarily in the case of redistributive uses developed by new (generally commercial) market entrants, "market failure" may justify uses that are as a practical matter insusceptible to licensing, notably because of their volume.

⁶ See, e.g., *Cariou v. Prince*, 714 F. 3d 694, 709 (2d Cir 2013) (substitution is the criterion for market harm, and "[t]he more transformative the secondary use, the less likelihood that the secondary use substitutes for the original")

⁷ *Authors Guild v. HathiTrust*, 755 F.3d 87, 99 (2d Cir. 2014).

⁸ *American Geophysical Union v. Texaco Inc.*, 60 F. 3d 913, 930 (2d Cir. 1994); see also *HathiTrust* at 96;

At the same time, the range of traditional, productive, fair uses has also been expanding, as the “transformative use” sobriquet has come to excuse an ever-greater quantity of borrowing, along with a decreasing level of intervention in or commenting upon the content of the copied work. That said, some U.S. judges appear to be resisting the “transformative” tide, as a few recent decisions either question the label altogether, or appear less ready to bring all manner of copying under its shelter.

I first will examine the redistribution fair uses, all impelled by new technologies, but some appropriately characterized as social subsidy fair uses, and others as market failure fair uses. Then I will turn to the application of the fair use doctrine in its more traditional context of copying from prior works in order to create a new and independent work of value-added authorship. The final section will consider whether, in light of this caselaw, the U.S. has exceeded the bounds of the three-step test.

1. Redistribution fair use caselaw

a. Non profit educational and library copying

i. educational copying

In *Cambridge University Press v Becker*,⁹ three academic publishers sued Georgia State University for systematically infringing their copyrights by implementing a policy that permitted faculty members to make excerpts from the plaintiffs’ works as electronic course reserves through the university library’s website. 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.”¹⁰ 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).”¹¹ 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 district court found all but five instances of the copying to be fair use, principally because it adopted a bright-line presumption in favor of fair use if the defendant copied no more than ten percent 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 (the court

9. 863 F. Supp. 2d 1190, 1201–02 (N.D. Ga. 2012), *rev’d* Nos. 12-14676 & 12-15147 11th Cir. (17 October 2014)

¹⁰ *Id.* at 1233.

¹¹ *Id.* at 1227.

ruled that the full book, rather than separate chapters or other smaller increments, supplied the reference point for the quantum of copying). The Eleventh Circuit, on October 17, 2014, ruling that the district court's 10% off the top approach was inconsistent with the statutory direction to apply all fair use factors, reversed and remanded for a reweighing of all the factors particularly in light of the fourth factor (impact on the potential market for the work). While the district court's 10% presumption was indeed problematic, it had the merit of imposing a clear standard (at least for copying below that threshold). The appellate court's insistence on case-by-case evaluation may be more consonant with the statute, but its analysis of cognizable economic harm is both murky and highly contentious.

With respect to the fourth factor, the district court acknowledged the significance of the market for licensing excerpts, and the deleterious impact on the value of the work were licensing fees to 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.”¹² Otherwise the unlicensed use would likely be ruled “fair.” For many of the works at issue, the district 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.”¹³ Where digital permissions were available, by contrast, the court ruled that the fourth factor would weigh heavily against fair use.¹⁴ 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 (in effect, a 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 district 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.”¹⁵

Although it condemned the 10% presumption, the Eleventh Circuit largely sustained the district court's analysis of market harm, particularly with respect to the issue of licensing revenue. The court acknowledged that programs for academic permissions existed, notably the licenses offered by the Copyright Clearance Center, a consortium of publishers, but nonetheless declared:

12. *Id.* at 1237.

13. *Id.* at 1238.

14. The court accordingly found five instances of use it deemed not “fair.” *See also* Cambridge Univ. Press v. Becker, No. 1:08-CV-1425-ODE, 2012 U.S. Dist. LEXIS 123154 (N.D. Ga. August 10, 2012) (relief for five instances of copyright infringement).

¹⁵ 863 F. Supp. 2d at 1237.

it is not determinative that programs exist through which universities may license excerpts of Plaintiffs' works. In other words, the fact that Plaintiffs have made paying easier does not automatically dictate a right to payment. . . . The goal of copyright is to stimulate the creation of new works, not to furnish copyright holders with control over all markets. Accordingly, the ability to license does not demand a finding against fair use.

Nevertheless, "it is sensible that a particular unauthorized use should be considered 'more fair' when there is no ready market or means to pay for the use, while such an unauthorized use should be considered 'less fair' when there is a ready market or means to pay for the use. . . . Put simply, absent evidence to the contrary, if a copyright holder has not made a license available to use a particular work in a particular manner, the inference is that the author or publisher did not think that there would be enough such use to bother making a license available. In such a case, there is little damage to the publisher's market when someone makes use of the work in that way without obtaining a license, and hence the fourth factor should generally weigh in favor of fair use."¹⁶

The court did acknowledge, in footnote, that there might be reasons other than indifference for a publisher to fail to offer a digital license:

Of course, it need not always be true that a publisher's decision not to make a work available for digital permissions conclusively establishes that the publisher envisioned little or no demand, and that the value of the permissions market is zero. After all, a number of other factors might influence a publisher's distribution decision: the publisher may not yet have figured out how to sell work in a different medium, or it might want to restrict circulation in one medium to promote another.¹⁷

But, back in the subsequent text, the court seems to have cast to the winds its below-the-line caution. Rather, it reinforced the suggestion that a publisher, or perhaps any copyright owner, had best license every form of reproduction and distribution of its works, lest the inference arise that the copyright owner deliberately disregarded any uncovered exploitation, thereby inviting unlicensed fair users to move into the unoccupied markets. The court continued:

If a publisher makes licenses available for some uses but not for others, this indicates that the publisher has likely made a reasoned decision not to enter the licensing market for those uses, which implies that the value of that market is minimal. . . .

With regard to the works for which digital permissions were unavailable, Plaintiffs choose to enter those works into some markets—print copies of the whole work, or perhaps licenses for paper copies of excerpts—but not the digital permission market. This tells us that Plaintiffs likely anticipated that there would be little to no

¹⁶ Cambridge Univ. Press v. Patton, 2014 WL 5303007 at *35-36 (11th Cir. Oct. 17, 2014).

¹⁷ *Id.* at *36, n. 32.

demand for digital excerpts of the excluded works and thus saw the value of that market as de minimis or zero. If the market for digital excerpts were in fact de minimis or zero, then neither Defendants' particular use nor a widespread use of similar kind would be likely to cause significant market harm. Of course, if publishers choose to participate in the market the calculation will change.¹⁸

The last sentence just quoted reinforces the license-it-or-lose-it message sounded by the district court. But both courts looked only to the state of plaintiffs' digital licensing in 2009, and therefore gave no consideration to plaintiffs' current exploitation of the digital licensing market. Had plaintiffs sued for damages (a remedy which the Eleventh Amendment would have in any event precluded because George State University is a state institution), freezing the fair use inquiry in 2009 would have been appropriate. But plaintiffs sought only prospective injunctive relief, so one would think that on remand the district court should allow evidence of the scope of their digital licensing today. If that is not an option, then would the publishers have to initiate a new action, assuming any repeat claim would not be *res judicata*? The problem of the frozen record further reinforces the license-it-or-lose-it lesson; as soon as any new mode of exploitation points up on the horizon, the copyright owner had better enter the new market immediately, in order to ward off other early entrants, since suing without first developing the licensing market apparently betokens failure.

Against this somewhat apocalyptic forecast, one might recognize that the defendant was a non profit educational institution, and that the court's fourth factor analysis might be rooted in that context. Perhaps a commercial entity would not enjoy the same fair use entitlement to exploit a new market currently undeveloped by the copyright owner. But the court did not distinguish commercial and non commercial users for purposes of the fourth factor; rather, as the court stressed, the (non) commercial nature of the use is a factor one issue. Where the use furthers non profit educational purposes it is "more likely to be fair,"¹⁹ but even a commercial use, particularly a "transformative one" (which Georgia State's use was not²⁰) might well weigh in favor of the defendant. If the fourth factor looks only to the plaintiff's occupation of the market, without consideration of the commerciality of the defendant's exploitation, then license-it-or-lose-it risks becoming a threat of general application.

That said, it is in fact very difficult to ascertain the 11th Circuit's bottom line in the Georgia State case. In concluding, the court stated:

With regard to the fourth factor—the effect of Defendants' use on the market for the original—the District Court did not err. However, because Defendants' unpaid copying was nontransformative and they used Plaintiffs' works for one of the purposes for which they are marketed, the threat of market substitution is severe. Therefore, the

¹⁸ *Id.* at *37.

¹⁹ *Id.* at *40.

²⁰ *Id.* at *23, 44, 45.

District Court should have afforded the fourth fair use factor more significant weight in its overall fair use analysis.²¹

If the district court “did not err,” then it correctly determined that the plaintiffs suffered little cognizable harm as to the works for which they were not offering digital licenses in 2009. But then how can “the threat of market substitution [be] severe”? On the other hand, if the district court’s finding of no market effect was not erroneous, what difference would giving the fourth factor “more significant weight” in the overall fair use analysis make? More confusing still, the 11th Circuit held that the “District Court’s designation of Defendants as the prevailing party and consequent award of fees and costs were predicated on its erroneous fair use analysis.”²² While the vacating of that portion of the district court’s order might suggest that a reweighing of the fourth factor could mean that the defendant ultimately will not prevail, the 11th Circuit also vacated the injunction respecting the five instances in which the district court rejected the fair use defense. There again, the district court’s “legally flawed methodology in balancing the four fair use factors and erroneous application of factors two and three [the improper 10% presumption],”²³ required revisiting the result, which could suggest that even as to those five instances, reassessment the fourth factor could produce a different outcome. If the district court erred on the side of false clarity, the 11th Circuit’s correction substitutes true obscurity.

ii. Library Uses

Library uses present another instance of social subsidy fair use. Particular types of library copying received explicit statutory coverage in § 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.²⁴ Section 108 nonetheless points to further flexibility by cautioning that “[n]othing in this section . . . in any way affects the rights of fair use as provided by section 107”²⁵

*Authors Guild v. HathiTrust*²⁶ tested the relationship between the two provisions. The Second Circuit announced a broad fair use privilege to create and store digital copies of entire books for purposes of “data mining” of full text and to enable access to the contents of books by the visually impaired. The Second Circuit rejected the authors’ contention that the constraints contained within section 108, notably disallowing “systematic” reproductions, limited the scope

²¹ *Id.* at*41.

²² *Id.*

²³ *Id.*

24. *See, e.g.*, LIBRARY OF CONGRESS, THE SECTION 108 STUDY GROUP REPORT, i (2008) (“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.”).

25. 17 U.S.C. § 108(f)(4) (2012).

26. 755 F.3d 87 (2d Cir. 2014), *aff’g* 902 F. Supp. 2d 445 (S.D.N.Y. 2012).

of fair use.²⁷ The court addressed the two uses separately. Looking at the output of data in response to search queries rather than the input of the full contents of books into the database, the court found the data-mining uses “quintessentially transformative . . . we can discern little or no resemblance between the original text and the results of the H[athiTrust] D[igital] L[ibrary] full-text search.”²⁸ Not only did the data mining uses not generate any output of copyrightable expression, but the nature of the use corresponded to a purpose entirely different from those covered by more conventional uses: “There is no evidence that the Authors write with the purpose of enabling text searches of their books. Consequently, the full-text search function does not supersede[] the objects [or purposes] of the original creation.”²⁹ The second and third factors were quickly dispatched: the nature of the copied work was “not dispositive,” and the amount and substantiality of the copying corresponded to the purpose of the copying, which was to reproduce the full text of the books.³⁰

The first factor finding of “transformative use” essentially dictated the court’s analysis of the fourth factor, for “under Factor Four, any economic ‘harm’ caused by transformative uses does not count because such uses, by definition, do not serve as substitutes for the original work.”³¹ The court has thus drawn the explicit conclusion suggested in earlier decisions in which it indicated that a “transformative use” fills a “transformative market,” which did not substitute for the work’s usual markets.³² A “transformative use,” then, by definition exploits a non traditional market. That the new market is one that copyright owners might come to develop apparently does not matter; the court gave short shrift to the authors’ contended economic harm from lost licensing opportunities.³³ This dismissal of prospective markets can be reconciled with the text of the fourth factor, which directs courts to consider “the effect of the use upon the *potential* market for or value of the copyrighted work,”³⁴ if one concludes that the to-be-developed market is normatively objectionable, as the Supreme Court had held in rejecting the

27. *Id.* at 94, n. 4.

28. *Id.* at 97.

29. *Id.* (quoting *Campbell v Acuff-Rose*, 510 U.S. at 579) (internal quotation marks omitted).

30. *Id.* at 96. On fair use and data mining, see generally, Matthew Sag, *Orphan Works as Grist for the Data Mill*, 27 *BTLJ* 1503 (2012) (non expressive uses of copyrighted works do not infringe copyright).

31. *Id.* at 99.

32. See, e.g., *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 614-15 (2d Cir. 2006); *Castle Rock Entertainment, Inc. v. Carol Pub. Group, Inc.*, 150 F.3d 132, 146 n.11 (2d Cir. 1998). Compare, *A&M Records v. Napster*, 239 F.3d at 1017: “lack of harm to an established market cannot deprive the copyright holder of the right to develop alternative markets for the works. See *L.A. Times v. Free Republic*, 2000 U.S. Dist. LEXIS 5669, 54 U.S.P.Q.2D (BNA) 1453, 1469-71 (C.D. Cal. 2000) (stating that online market for plaintiff newspapers' articles was harmed because plaintiffs demonstrated that '[defendants] are attempting to exploit the market for viewing their articles online').”

33. *HathiTrust*, 100:

This theory of market harm does not work under Factor Four, because the full-text search function does not serve as a substitute for the books that are being searched. [Citations omitted] Thus, it is irrelevant that the Libraries might be willing to purchase licenses in order to engage in this transformative use (if the use were deemed unfair). Lost licensing revenue counts under factor four only when the use serves as a substitute for the original and the full text search use does not.

³⁴ 17 U.S.C. sec. 107(4) (emphasis supplied).

concept of a licensing market for parodies.³⁵ The normative conclusion that there is no market for the contested use, however, may be more apt for productive uses that generate new works, particularly those critical of the copied work, than for uses that entail unaltered copying of the entire work. If the same conclusion pertains in the latter cases, the court has probably concluded that the use should be allowed in any event; attaching the “transformative” label to the use will determine the outcome of the market harm inquiry: if the market is “transformative,” there is no cognizable harm because impairment to a transformative, as opposed to a traditional, market doesn’t count. Thus, if the use is “transformative,” the four-factor statutory test effectively reduces to a single factor.

The Second Circuit assessed the transformativeness of the use differently with respect to the copying for access by the print-disabled. The district court had held that the visually impaired 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.”³⁶ Recognizing that this 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 Second Circuit reined in the enthusiasm of the district court: “This is a misapprehension; providing expanded access to the print disabled is not ‘transformative.’ . . . By making copyrighted works available in formats accessible to the disabled, the HDL enables a larger audience to read those works, but the underlying purpose of the HDL’s use is the same as the author’s original purpose.”³⁷ But, the court went on, “While a transformative use generally is more likely to qualify as fair use, transformative use is not absolutely necessary for a finding of fair use.”³⁸ Copying for the print disabled still qualified as a fair use because the amount of copying was commensurate to the task (factor three), and publishers do not make their works available in blind friendly formats, so there is no cognizable market harm.³⁹

A perceived social imperative may well underlie the court’s rather cavalier treatment of the potential licensing markets with respect to both kinds of use. The district court, in concluding its fair use analysis, 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

³⁵ See *Campbell v Acuff-Rose Music, Inc.*, 510 U.S. 569, 591-92 (1994)

³⁶ *Authors Guild v. HathiTrust*, 902 F. Supp.2d 445, 461 (2d Cir. 2012).

³⁷ *Id.* at 101.

³⁸ *Id.* at 101-02, *quoting* *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P.*, 742 F.3d 17, 28 (2d Cir. 2014) (internal quotation marks omitted).

³⁹ “Transformativeness” thus appears to be a one-way wratchet: if the use is transformative, it is highly likely to be deemed “fair,” but there is no negative inference: non “transformative” uses may nonetheless be deemed “fair” as well.

science and cultivation of the arts that at the same time effectuates the ideals espoused by the A[mericans with] D[isabilities] A[ct].”⁴⁰

The Second Circuit eschewed the lower court’s rhetorical flourishes, but it surely perceived no lesser public benefit from the HathiTrust Digital Library than did the S.D.N.Y. One should nonetheless note the district 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.

As for the critique that the courts failed adequately to acknowledge emerging licensing markets, one might rejoin that there is no need to license if the use is fair,⁴¹ and that indeed appears to be the approach of the Second Circuit. In other words, *HathiTrust* appears to be a case in which the public benefit was so compelling (and the market harm so trivialized) that the use should be free of restraint and free of charge even if it could be licensed. But if the use is fair *because* it supposedly cannot be reasonably licensed, then nipping licensing in the bud deprives the author of compensation and gives the user an unwarranted free pass.⁴² This brings us to the second class of distribution 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 J. Gordon as “market malfunction” rather than what she calls “inherent limitation,” which I understand to import a normative gloss: a market *could* function, but policy reasons make such markets undesirable.⁴³ When a large populace engages in a multitude of non-creative uses, particularly in the digital environment, the cost of seeking and paying for authorization may be prohibitive for each potential user, so that enforcement of the copyright might yield few sales and little advantage for the copyright owner. The public interest (here equated 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, as Lord Macaulay put it, that we “have a supply of good

40. *HathiTrust*, 902 F. Supp. 2d at 464.

41. See, e.g., Matthew Africa, *The Misuse of Licensing Evidence in Fair Use Analysis: New Technologies, New Markets, and the Courts*, 88 Calif. L. Rev. 1145, 1148–49 (2000); Wendy Gordon, *Fair Use Markets: On Weighing Potential License Fees*, 79 Geo. Wash. L. Rev. 1814, 1824-25 (2011). See generally Mark Lemley, *Should a Licensing Market Require Licensing?*, 70 Law & Contemp. Probs. 185 (2007). This objection, however, primarily arises in the context of new works rather than new distributions.

42. There may, however, be other justifications; such as solicitude for the visually-impaired, to allow the use for free.

43. See Wendy J. 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 U.S.A. 149, 151–53 (2003). *Campbell v. Acuff-Rose* is a good example of an “inherent limitation”: when the Court announced “the law recognizes no derivative market for critical works, including parody,” it was making a normative, not an empirical, declaration. 510 U.S. 569, 592 (1993). The Second Circuit’s *HathiTrust* decision offers another example of “inherent limitation.” *Authors Guild v. HathiTrust*, 755 F.3d 87 (2d Cir. 2014).

books”⁴⁴). The examples I will consider are private copying, and mass digitization as exemplified by Google’s book-scanning program.⁴⁵

i. Private Copying

As end users already, and will increasingly, enjoy copyrighted works of all kinds through licensed access-based models,⁴⁶ 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. (Indeed, given the evolution of the hardcopy media in which works may be fixed, “cloud”-accessibility may be preferable to having to update one’s collection, for example, from recordable tape to burnable CDs to memory chips on portable devices, and so on.) United States case law does not in any event support a general private copying fair use exception for retention copies;⁴⁷ an exception does in effect exist for analog copies of musical recordings,⁴⁸ and another is in place for an “additional copy or adaptation” copy of computer programs,⁴⁹ but they are the fruits of specific legislation, not fair use litigation. The Supreme Court in *Sony Corporation of America v. Universal City Studios*⁵⁰ did, however, rule (on a rather cursory, and now partly abandoned, analysis⁵¹) that time shifting

44. 56 PARL. DEB., H.C. (3rd ser.) (1840) 346 (U.K.). 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 pieces of great merit. But you must not look to them for works which require deep meditation and long research. Such works 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.” *Id.* at 346–47.

45. Two other relevant decisions are *A.V. ex rel. Vanderhye v. iParadigms, LLC*, 562 F.3d 630 (4th Cir. 2009) (computer program that evaluated the originality of student works was transformative and therefore fair use because, although the entire work was copied, the new use was completely unrelated to expressive content and had an entirely new and important purpose, preventing plagiarism) and *Fox News Network v. TVEyes*, 2014 U.S. Dist. LEXIS 126138 (SDNY Sept. 9, 2014) (compilation by media-monitoring service of television clips and snippets of transcript into database available to the public was transformative and therefore fair use).

46. 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 U.S.A. 113, 124–25 (2003).

47. 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 readily accessible copies of subscribers’ CDs).

48. See 17 U.S.C. § 1008 (2012) (no infringement action “based on the noncommercial use by a consumer of [an analog recording device]...for making . . . analog musical recordings.”).

49. *Id.* § 117(a).

50. 464 U.S. 417 (1984).

51. See, e.g., Jessica Litman, *The Story of Sony v. Universal Studios: Mary Poppins Meets the Boston Strangler*, in *INTELLECTUAL PROPERTY STORIES* 358 (Jane C. Ginsburg & Rochelle Cooper Dreyfuss, eds., 2006)(detailing the aspects of *Sony* from which the Court has retreated, such as the predominant significance of commercial use, and those which retain vitality, such as much of the contributory infringement analysis); 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).

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 entire works for the same consumption purpose for which they were disseminated was a significant departure from prior law (as the Ninth Circuit had emphasized below⁵²), 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.⁵³ (As the dissent stressed, the majority gave scant consideration to the new markets that time-shifting would spawn.⁵⁴)

Given *Sony*’s failure to blossom into a general fair use private copying privilege,⁵⁵ 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.⁵⁶ Another reason to query the continued persuasiveness of *Sony*’s fourth factor 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*⁵⁷ 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.

52. *Universal City Studios v. Sony Corp. of Am.*, 659 F.2d 963, 971 (9th Cir. 1981), *rev’d*, 464 U.S. 417 (1984) (“[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.”).

The preamble to section 107, in identifying fair use purposes such as “teaching,” included “multiple copies for classroom use.” While the copies did not yield new works, the classroom pedagogical use could be deemed productive rather than “intrinsic.”

53. *Accord*, Paul Goldstein, *Fair Use in Context*, 31 COLUM. J.L. & ARTS 433, 439 (2008).

54. *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.”). See also Wendy J. Gordon, “Fair Use as Market Failure: A Structural and Economic Analysis of the *Betamax* Case and Its Predecessors,” 82 *Columbia Law Review* 1600, 1620-23 (1982).

55. 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., §§ 1001–1010 (2012).

That said, the popular practice of making media-shifting copies of copies lawfully acquired, for example, by ripping music from CDs to load onto one’s iPhone, or to store in one’s “cloud,” has become so widespread that it may have become *de facto* fair use. That the practice may not yet be *de jure* fair use may be ascribed to apparent reluctance on the part of the copyright owners to challenge it. The Supreme Court, in *ABC v. Aereo*, appears to view a user’s posting a copy of a work to her cloud storage to come within her possessory relationship to the copy. See *ABC v. Aereo*, 134 S. Ct. 2498, 2511 (2014).

56. See, e.g., Michael A. Einhorn, *Internet Television and Copyright Licensing: Balancing Cents and Sensibility*, 20 *Cardozo Arts & Ent. L.J.* 321 (2002); Randal C. Picker, *The Digital Video Recorder: Unbundling Advertising and Content*, 71 *U. Chi. L. Rev.* 205 (2004); Ned Snow, *The TiVo Question: Does Skipping Commercials Violate Copyright Law?*, 56 *SYRACUSE L. REV.* 27 (2006).

57. 723 F.3d 1067 (9th Cir. 2013).

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 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)⁵⁸ ground that only the user “made” the PTAT copies.⁵⁹ 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, said the court, 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.”⁶⁰

This astoundingly obtuse analysis recalls the Ninth Circuit’s decision in *Visa International Service Association*,⁶¹ 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

58. 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 (2008) (criticizing Second Circuit’s analysis of who “makes” the copy). Cf. *Nat’l Rugby League Invs. Proprietary Ltd. v. Singtel Optus Proprietary Ltd.*, [2012] FCR 59 (Austl.) (rejecting Second Circuit’s analysis and finding provider of remote DVR service to have “made” the copy, perhaps in conjunction with the end-user).

⁵⁹ The Supreme Court’s decision in *ABC v. Aereo*, 134 S. Ct. 2498 (2014), did not address the question of who “makes” an automated on-demand copy. The majority’s analysis of the public performance right concluded that Aereo “performed” the broadcast television programming that it retransmitted to its subscribers via personalized antennas and individualized streams of the digitized signal. The dissenters, adopting the “volition” analysis propounded by the Second Circuit in *Cartoon Network v CSC Holdings*, 536 F.3d 121 (2d Cir. 2008), had contended that the automated nature of Aereo’s service should have characterized Aereo as a mere provider of equipment enabling the subscribers to “perform” the broadcast programs that the subscribers requested be retransmitted to their devices. To the extent the majority’s analysis can be read as rejecting the “volition” predicate to determining “who performs” a copyrighted work, the analysis may also undermine a similar prerequisite to determining “who copies” a work of authorship. For a fuller discussion of *Aereo*, see Part I of this Letter from the U.S., in the previous issue of the RIDA.

60. 723 F.3d at 1076.

61. 494 F.3d 788, 809 (9th Cir. 2007).

whose transactions Visa processed wouldn't be making and distributing infringing copies if it couldn't be paid for it.⁶² 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 Auto-Hop which recognizes commercials and, instead of fast forwarding through them, does not record them in the first place; 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 is 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.)

ii. Mass Digitization

Mass digitization appears to present intractable transaction costs problems. The number of works at issue, and the difficulty of locating their rightholders (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 the volume of copying, standing alone, should not suffice for a free pass (especially, as we shall see, under international norms), though difficulties in rightholder location may justify a flexible solution. In any event, the transaction costs of mass digitization should not be overstated. The problem is primarily transitional; for works currently

62. *Id.* at 817–19.

in commerce or disseminated with some form of copyright management information, rightholders can be found and their terms and conditions known.

As to in-copyright, out-of-commerce works, the 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,⁶³ 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 transaction costs problem. In this instance, "diligent search" costs to locate the owners of "orphan works" were not involved: Google made no pretense of endeavoring to find rightholders 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."⁶⁴

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 November 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 *HathiTrust* decision was an encouraging precedent for the former approach, although unlike the library consortium, Google is not a charitable institution, and it is not apparent that it requires a social subsidy of the sort that benefits nonprofit 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.⁶⁵ But the library is not entitled to acquire the lending copies without paying for them (or receiving them as a gift).

63. See *Authors Guild Inc. v. Google Inc.*, 770 F. Supp. 2d 666, 686 (S.D.N.Y. 2011).

64 For a discussion of the Google Books controversy see James Grimmelman's blog, <http://www.thepublicindex.org/>

65. See 17 U.S.C. § 109(a) (2012) (owner of lawfully made copy may resell or lend that particular copy).

What Google does, or enables others to do, with the outputs may not be infringing, but those uses should not have obscured the inputs.⁶⁶

Judge Chin, however, focused almost exclusively on the outputs, effectively bootstrapping the inputs in one sentence: “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 uses of entire works in the perceived public interest.⁶⁷

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.

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.”⁶⁸

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 copying does the plaintiff a favor by bringing the work to greater public attention.⁶⁹

[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

66. *HathiTrust*’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.*, 977 F.2d 1510, 1522-28 (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.

⁶⁷ *But see* the Second Circuit’s mild corrective in *HathiTrust*, discussed *supra*.

68. *Authors Guild, Inc. v. Google Inc.*, 954 F. Supp. 2d 282, 291 (S.D.N.Y. 2013).

69. On courts’ previous failure to find this contention persuasive, see, e.g., Pierre N. Leval, *Commentaries Toward a Fair Use Standard*, 103 Harv. L. Rev. 1105, 1124 n. 84 (1990).

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.⁷⁰

Both district courts, in *HathiTrust* and *Google Books* adopted 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? The courts' perception that copyright law jeopardized socially beneficial innovations may well reflect the "on/off" nature of U.S. fair use; neither the statute nor our courts have developed the "step three" middle ground of legal licenses for uses for which there may be no "normal exploitation" (i.e., in this instance, manageable market), but which "unreasonably prejudice the legitimate interests of the author."

2. Traditional fair use cases: Copying to create new, authorship-added works

Less controversy surrounds decisions involving traditional claimants to fair use, such as parody⁷¹, but the Second Circuit continues its expansion of "transformative" use into an all-encompassing fair use panacea in this context as well as that of redistributive uses. *Cariou v. Prince*⁷² may present the boldest and most disturbing apparition of "transformativeness." In that case, a relatively unknown photographer claimed that the celebrity appropriation artist Richard Prince infringed the copyrights in his photographs by reproducing them, often with little alteration, in a series of paintings. The Second Circuit held that most of the challenged works were transformative and constituted fair use; it held that the district court erred in concluding that, for a work to be transformative, it must comment on the original work. Prince's works were transformative because they offered the observer a fundamentally different aesthetic (from lowly reportage to high art); it did not matter that Prince did not articulate how his works transformed the copied photograms. Instead,

What is critical is how the work in question appears to the reasonable observer, not simply what an artist might say about a particular piece or body of work. Prince's work could be transformative even without commenting on Cariou's work or on culture, and even without Prince's stated intention to do so. Rather than confining our inquiry to Prince's explanations of his artworks, we instead examine how the artworks may 'reasonably be perceived,' in order to assess their transformative nature.⁷³

Furthermore, even though Prince's works were commercial (and sold at very high prices), the court did "not place much significance on that fact due to the transformative nature of the

70. 954 F. Supp. 2d at 293.

⁷¹ See, e.g., *Brownmark Films, LLC v. Comedy Partners*, 682 F.3d 687 (7th Cir. 2012) (finding parody of music video in satirical television show to be fair use)

⁷² 714 F. 3d 694 (2d Cir. 2013).

⁷³ 714 F. 3d at 707 (emphasis added).

work.”⁷⁴ Similarly, the court placed little emphasis on Prince’s frequent appropriation of the entirety of many of Cariou’s photographic images. Rather, the court considered the taking of the entire image transformative when Prince enlarged it ten times. The transformativeness of Prince’s use also factored into the court’s analysis of the third fair use factor, the amount and substantiality of the copyrighted work taken. The Second Circuit chided the lower court for its conclusion that Prince had taken substantially more than necessary and stated that, “the secondary use must be permitted to conjure up *at least* enough of the original to fulfill its transformative purpose.”⁷⁵

The court’s treatment of the fourth statutory factor (the effect of the secondary use on the potential market for the copyrighted work), affirmed that “[t]he more transformative the secondary use, the less likelihood that the secondary use substitutes for the original, even though the fair use, being transformative, might well harm, or even destroy, the market for the original.”⁷⁶ Here, Prince’s high-end art market works were deemed both sufficiently transformative and appealing to an entirely different clientele than the plaintiff photojournalist’s audience. The court’s evaluation of this factor claimed that there was no market harm to Cariou because of Prince’s fame and the price range of his works and the market he served. Indeed, in an stunningly irrelevant substantiation of its assertion that the different ends of the art market that the parties occupied meant that Prince’s work could not substitute for Cariou’s, the court detailed the guest list of those invited to Prince’s opening at the Gagosian Gallery:

Prince’s work appeals to an entirely different sort of collector than Cariou’s. Certain of the Canal Zone artworks have sold for two million or more dollars. The invitation list for a dinner that Gagosian hosted in conjunction with the opening of the Canal Zone show included a number of the wealthy and famous such as the musicians Jay-Z and Beyonce Knowles, artists Damien Hirst and Jeff Koons, professional football player Tom Brady, model Gisele Bundchen, Vanity Fair editor Graydon Carter, Vogue editor Anna Wintour, authors Jonathan Franzen and Candace Bushnell, and actors Robert DeNiro, Angelina Jolie, and Brad Pitt. Prince sold eight artworks for a total of \$10,480,000, and exchanged seven others for works by painter Larry Rivers and by sculptor Richard Serra. Cariou on the other hand has not actively marketed his work or sold work for significant sums, and nothing in the record suggests that anyone will not now purchase Cariou’s work, or derivative non-transformative works (whether Cariou’s own or licensed by him) as a result of the market space that Prince’s work has taken up. This fair use factor therefore weighs in Prince’s favor.⁷⁷

⁷⁴ *Id.* at 708.

⁷⁵ *Id.* at 710 (internal quotation marks omitted).

⁷⁶ *Id.* at 709 (quoting *Castle Rock Entertainment, Inc. v. Carol Pub. Group, Inc.*, 150 F. 3d 132, 145 (2d Cir. 1998)(internal quotation marks omitted)).

⁷⁷ *Id.*

Thus, the *Cariou* court emphasized the “transformative” nature of the defendant’s use at each stage, effectively collapsing the four-factor test into an extended discussion of transformative use, while decreasing the significance of the other factors. When the “transformative” character of the use sweeps all before it, judicial application of the fair use doctrine not only becomes unmoored from the statute, but also makes fair use even more indeterminate and unpredictable than before (some level of indeterminacy and unpredictability being inherent to the flexibility that is the hallmark of fair use), because “transformativeness” may be entirely in the eye of the judicial beholder.⁷⁸

Some signs of resistance to the “transformative” take-over of the fair use doctrine have begun to appear. Most recently, Judge Easterbrook of the U.S. Court of Appeals for the Seventh Circuit, in *Kienitz v. Sconnie Nation*,⁷⁹ affirmed the district court’s holding that the use of an altered version of plaintiff’s photograph on a t-shirt for purposes of political parody was fair use, but condemned the lower court’s reliance on the “transformative” character of the use:

The district court and the parties have debated whether the t-shirts are a "transformative use" of the photo — and, if so, just how "transformative" the use must be. That's not one of the statutory factors, though the Supreme Court mentioned it in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994). The Second Circuit has run with the suggestion and concluded that "transformative use" is enough to bring a modified copy within the scope of § 107. See, e.g., *Cariou v. Prince*, 714 F.3d 694, 706 (2d Cir. 2013). *Cariou* applied this to an example of "appropriation art," in which some of the supposed value comes from the very fact that the work was created by someone else.

We're skeptical of *Cariou's* approach, because asking exclusively whether something is "transformative" not only replaces the list in § 107 but also could override 17 U.S.C. § 106(2), which protects derivative works [derivative works being defined as "any form in which the work may be recast, *transformed* or adapted," 17 U.S.C. sec. 101,

⁷⁸ Several of the cases described in this *Letter* offer some examples of works or purposes alleged or held to be “transformative”; for others, see, e.g., *Richards v. Merriam Webster, Inc.*, 2014 WL 4843977 (D. Mass. Sept. 26, 2014) (incorporation of 70% of definitions from Webster’s dictionary into online “textbook dictionary”; defendant claimed his different purpose rendered his use “transformative”; court nonetheless finds deleterious market impact outweighs any transformativeness); *Calkins v. Playboy Enterprises Intern., Inc.*, 561 F. Supp. 2d 1136 (E.D. Cal. 2008) (Playboy Enterprises International used plaintiff’s high school senior portrait without her permission, yet court found fair use because the reproduction was much smaller and served an entirely different function (to entertain Playboy readers), which heavily outweighed the other fair use factors, including the commercial use of the photograph); *Peter Letterese and Associates, Inc. v. World Institute of Scientology Enterprises*, 533 F. 3d 1287 (11th Cir. 2008) (entities associated with the Church of Scientology incorporated large portions of a book into their instructional course materials but the court held that the use was not transformative because it did not “reshape” the instructional purpose or character of the book and merely emphasized, rather than transformed, the overall purpose and function). For academic critiques of the problematic nature of “transformative use” see, e.g. Diane Leenheer Zimmerman, *The More Things Change, the Less They Seem ‘Transformed’: Some Reflections on Fair Use*, 46 J. Copyright Soc’y U.S.A. 2 (1999); Laura A. Heymann, *Everything is Transformative: Fair Use and Reader Response*, 31 Colum. J. L. & Arts 445 (2008).

⁷⁹ 766 F. 3d 756 (7th Cir. 2014).

emphasis supplied]. To say that a new use transforms the work is precisely to say that it is derivative and thus, one might suppose, protected under § 106(2). Cariou and its predecessors in the Second Circuit do not explain how every "transformative use" can be "fair use" without extinguishing the author's rights under § 106(2).

We think it best to stick with the statutory list, of which the most important usually is the fourth (market effect). We have asked whether the contested use is a complement to the protected work (allowed) rather than a substitute for it (prohibited).⁸⁰

It remains to be seen whether other U.S. courts heed the Seventh Circuit's rebuke.

C. Consistency of U.S. Fair Use Caselaw with International Norms

The U.S. fair use doctrine is seeming rather cavernous of late. Does its recent expansion exceed the bounds set by the three-step test for Berne-, WCT-, and TRIPS-compatible copyright exceptions? We have seen that from the outset there may be a facial disparity between the first step (certain special cases) and the overarching applicability of section 107 of the U.S. copyright act. But, given the U.S.' active participation in the negotiations that produced the TRIPS, it seems unlikely the U.S. would have ratified an agreement with whose terms U.S. law was believed to be manifestly incompatible. Rather, "certain special cases," can be understood in terms of outcome rather than assertion of the fair use defense. While the many pretenders to the fair use exception may require courts to assess the permissibility of a plethora of uses, only those that are narrow and specifically defined will in fact pass muster. While that assertion may have been persuasive in 1994 when the TRIPS was promulgated, one may query whether the scope of fair use outcomes remains so limited. For example, Google's massive scanning of millions of in-copyright books arguably meets the WTO Panel's requirement that the purpose be specifically defined, at least so long as the purposes are confined to datamining or display of "snippets" of text, but the contention that the class of works at issue – millions of in-copyright books of all kinds other than reference works – is "narrow" seems far more tenuous. Similar questions might be raised with respect to the books scanned and excerpted for "electronic reserves."

With respect to the second step – that the use "not conflict with a normal exploitation of the work" – U.S. courts' examination, under fair use factor four, of the extent to which the use substitutes for an actual or potential market for the plaintiff's work, seems structurally consistent with that step. But courts' assessment of what constitutes substitution, and in particular, of the role of licensing in the analysis of market harm, may be more problematic. The WTO Panel acknowledged the U.S. argument that the concept of normal exploitation excluded "uses from which an owner would not ordinarily expect to receive compensation are not part of the normal exploitation," (para 6.177), but it also warned:

⁸⁰ *Id.* at 758.

6.178 In our view, this test seems to reflect the empirical or quantitative aspect of the connotation of "normal", the meaning of "regular, usual, typical or ordinary". We can, therefore, accept this US approach, but only for the empirical or quantitative side of the connotation. We have to give meaning and effect also to the second aspect of the connotation, the meaning of "conforming to a type or standard". We described this aspect of normalcy as reflecting a more normative approach to defining normal exploitation, that includes, *inter alia*, a dynamic element capable of taking into account technological and market developments.

As this *Letter's* analysis above indicated, some of the U.S. decisions' assessment of the impact of the defendant's use on the market for plaintiff's work may give too short shrift to the emergence of new, technologically-propelled, licensing models. By the same token, the facile dubbing of a use as "transformative," with the consequent determination that the transformative market does not substitute for the ordinary market for the work, seems to short-circuit inquiry into just what are and will be the markets for the work. Admittedly, the WTO Panel's "normative" analysis did not in fact include another, and important, concept of "normal" in the normative sense, that is, the social benefit that the use enables. The "normal" market for a work might not encompass certain uses the polity deems highly desirable, but which the market is under-serving. That concept of "normal" would correspond to the Second Circuit's factor four analysis in *HathiTrust* of the library's creation of copies for the visually impaired, as well, perhaps, to the Eleventh Circuit's assignment of substantial fair use-favorable weight to the unavailability of licenses for digital copying of books for university electronic course book "library e-reserves."

The most substantial incompatibility between the three-step test and recent US fair use caselaw concerns the third step, which allows member states to offset the "unreasonable prejudice" that would otherwise result from uncompensated uses by imposing a remuneration scheme, including by compulsory licensing. The third factor effectively makes it possible to split the difference by compensating for those uses for which there is no "normal exploitation," including (or especially) those uses whose social benefits inform the determination of the "normalcy" of the exploitation. The principal defect of the U.S. fair use doctrine, in its current expansive guise, is the lack of an equivalent to the third step. Because fair use is "all or nothing," and therefore provides no compensation for uses which social imperatives might seek to permit, the vaster the uses that the doctrine exempts, the greater the gulf between U.S. copyright law and international norms.⁸¹

⁸¹ I have suggested that many of the uses that U.S. law currently deems "fair," and therefore uncompensated, should instead be "permitted but paid." See Jane C. Ginsburg, *Fair Use for Free, or "Permitted but Paid"?*, *forthcoming* Berkley Tech. L. J. (2014).