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Strict Liability and Negligence in Copyright Law

I. Introduction

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

Copyright law internalizes benefits to spur creative activity thereby mirroring the internalizing function of tort law,³ which internalizes costs with a view to prompting third parties to exercise care so as to avoid harming another.⁴ Dealing with copyrighted works of authorship could be paralleled with “risky behaviour” that threatens to cause an “accident” in the form of reduced authorial incentives. Much like the law of accidents, the standard for copyright liability must reflect considerations pertaining to the efficient precautions that the potential infringers have to take so as to avoid accidents.⁵ Copyright norms are concerned with both authors’ and potential infringers’ levels of activity remaining optimal from a social welfare perspective. The choice of a proper liability standard is pivotal to achieving copyright’s utilitarian purposes. Policy makers, legislators and courts have a wide array of options at their disposal including strict liability, negligence and its various forms or a combination thereof.

It seems that the closest parallel that can be drawn to the law of accidents would be the one conceptualizing copyright infringement as a bilateral accident with variable activity levels.⁶ The probability of an accident increases as potential copyright infringers seek to maximize their own utility by raising their levels of activity in dealing with copyrighted works without the author’s

¹ *Metro-Goldwyn-Mayer Distributing Corp. v. Fisher*, 10 F.Supp. 745 (D. Md. 1935): “The violation of a copyright is classed as a tort and for injunctive purposes may be considered analogous to trespassing on real estate.”

² Wendy J. Gordon, *Copyright as Tort Law’s Mirror Image: “Harms,” “Benefits,” and the Uses and Limits of Analogy*, 34 MCGEORGE L. REV. 533 (2003).

³ *Id.* at 535. On the internalizing function of tort law see generally DANIEL H. COLE & PETER Z. GROSSMAN, *PRINCIPLES OF LAW & ECONOMICS* 270 (2nd ed. 2011); JEFFREY L. HARRISON & JULES THEEUWES, *LAW & ECONOMICS* 252-53 (2008).

⁴ As suggested by Wendy J. Gordon, *Of Harms and Benefits: Torts, Restitution, and Intellectual Property*, 21 J. LEGAL STUD. 449 (1992), the structure of copyright protection is consistent with the common law’s entitlement patterns. She makes the point that for the purposes of cost-benefit analysis harms and benefits are treated the same. There is also no inconsistency with the general rule of restitution law excluding payments for voluntary actions benefitting others because both legal institutions promote the formation of contracts. Restitution law provides the volunteer with an incentive to propose a deal before benefitting anyone. Through the grant of an exclusive right in works of authorship copyright law empowers authors to seek rents in the markets for the original work or its derivatives.

⁵ Oren Bracha & Patrick R. Goold, *Copyright Accidents*, 96 B.U. L. REV. 1025, 1037-40 (2016)(providing an anatomy of the copyright accident. Bracha and Goold examine liability for dealings with earlier works in those cases where at the time the infringing act occurred only a risk of infringement exists because the copyrighted status of the appropriated material is unknown to the alleged infringer or can only be ascertained through measures that are not cost-efficient. In their view, such accidental copyright infringement should be subjected to a negligence standard that gives “due weight” to such risk).

⁶ Cf. Gordon, *supra* note ___ at 537.

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permission. On the other hand, some of those unauthorized uses may turn out to be beneficial to social welfare because they promote cultural or expressive values, for instance. Authors' levels of activity are also variable in that they correspond to the level of incentives generated by the system of copyright protection.

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

In this paper, I will argue that the tort of copyright infringement constitutes a mixed system of liability, which resorts to both strict liability and negligence to achieve the utilitarian aim of promoting the progress of science and the useful arts as instructed by the Intellectual Property Clause of the Constitution.¹⁰ Indeed, copyright infringement is structured to mirror trespass upon property while the fair use doctrine operates as a negligence standard optimizing the levels of activities involving some form of dealing with an earlier work, such as incremental authorship, critical commentary, news reporting or the development of new technologies, which the exclusive

⁷ PAUL GOLDSTEIN, 2 GOLDSTEIN ON COPYRIGHT, § 7.0.1 at 7:3 – 7:4 (1996)(noting also how liability insurance can protect third parties against the harshness of that rule); WILLIAM F. PATRY, 2 PATRY ON COPYRIGHT, § 21:38 (highlighting the requirement of volitional conduct). *Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191, 199 (1931); *De Acosta v. Brown*, 146 F.2d 408, 411-12 (1944): “[T]he protection accorded literary property would be of little value if it did not go against third persons, or if, it might be added, insulation from payment of damages could be secured by a publisher by merely refraining from making inquiry.”

⁸ Dane S. Ciolino & Erin A. Donelon, *Questioning Strict Liability in Copyright*, 54 RUTGERS L. REV. 351 (2002); Avihay Dorfman & Assaf Jacob, *Copyright as Tort*, 12 THEORETICAL INQ. L. 59 (2011) (considering strict liability as an inappropriate rule for protecting intangible property because of the difficulties associated with demarcating the boundaries of such property and signalling ownership. In contrast, tangible property is easier to demarcate). For a general critique on the enforcement of the strict liability rule against innocent infringers see Kent Jr. Sinclair, *Liability for Copyright Infringement--Handling Innocence in a Strict-Liability Context*, 58 CALIF. L. REV. 940 (1970).

⁹ Patrick R. Goold, *Is Copyright Infringement a Strict Liability Tort?*, 30 BERKELEY TECH. L.J. 305 (2015); Steven Hetcher, *The Immorality Of Strict Liability In Copyright*, 17 MARQ. INTELL. PROP. L. REV. 1, 5-13 (2013)(invoking also the general argument of liability being immoral unless based on fault for the proposition that copyright infringement is in fact a tort based on negligence). See also Wendy J. Gordon, *The Concept of “Harm” in Copyright*, in SHYAMKRISHNA BALGANESH (ed.) INTELLECTUAL PROPERTY AND THE COMMON LAW 452 (2013)(suggesting that the notion of harm justifies redress when rivalrous diversion of customers comes into play whereas the copyright owner would have to substantiate harm in cases where the infringement claim relates to foregone licensing opportunities. This could at times require the courts to look at plaintiff’s personal situation and ascertain some sort of “grave need” to internalize foregone benefits. Examining the issue also from a philosophical perspective, Gordon’s analysis eloquently canvasses the types of harm that would be actionable under a reformulated tort of copyright infringement, which would require plaintiffs to prove harm including subjective distress). Others consider that the availability of the fair use defence results in a number of copyright disputes being resolved on the basis of a flexible standard and not a rule, see Christopher Springman, *Copyright and the Rule of Reason*, 7 J. ON TELECOMM. & HIGH TECH. L. 317 (2009)(drawing parallels to antitrust analysis and suggesting that liability should be designed to include dealings with earlier works that are *per se* infringing and secondary uses that must be subjected to the scrutiny of a rule of reason analysis based on the four factors set out in § 107 of the Copyright Act with the plaintiff bearing the burden of proof).

¹⁰ U.S. Const. art. I. sec. 8. cl. 8.

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right in that work is not supposed to suppress. In this section, (part I), I briefly summarize the main points of my argument.

Turning to the economic analysis of accident law would facilitate the analysis by highlighting the possible advantages and disadvantages of the various standards of liability with reference to the avoidance of accidents and the optimal degree of activity levels (Part II). The analysis shows that both strict liability and negligence are vital to implementation of the copyright system's goals. In order to secure incentives for the production of authorial works, copyright grants to its owner a profit-maximizing opportunity in the form of a property right, which is capable of being traded. Reliance investments in the creation of new works of authorship cannot therefore be effectively induced, unless the intangible subject matter of property is, first, precisely demarcated and, second, the copyright owner is guaranteed, as a matter of principle, that he will be able to obtain the economic benefit of the full market value for his creation. For these reasons, strict liability for trespassing upon copyright property should be the default rule. In addition, I argue, copyright's purpose of generating incentives for creativity is better achieved through general and abstract norms rather than flexible standards. On the other hand, the constitutional mandate from which copyright law derives its legitimacy rests on the premise that some dealings with copyrighted works should be permitted even during the copyright term so as to create a "breathing space", which eventually maximizes social welfare. Those activities, examples of which are enlisted in the preamble of § 107 Copyright Act,¹¹ should be subjected to a negligence standard because they are of such nature that they should be carried out as frequently and intensively as possible. A negligence standard is apt to serve this purpose. Fair use mirrors negligence in that it allows third parties to engage in socially desirable activities while imposing on them obligations to exercise care towards the legitimate interests of the copyright owner. Importantly, the nature of the fair use as a negligence standard allows for optimal decentralization effects as it makes it possible for the courts to apply personalised standards of care. I argue that the application of the fair use doctrine by the courts reflects that approach (Part III).

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

¹¹ §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) 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."

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internalization of norms can eventually be achieved. Then I will look more closely at the nature of fair use as a negligence standard. In particular, I will examine its operation as an ex post negligence standard, its capacity to factor in the effect of the adopted rule on innovation and its commonalities with the balancing-test of general tort law. The fair use calculus reflects a structured rule of reason, which requires the copyright owner to forego some of his economic benefits so that socially desirable secondary uses might take place where this would maximize social welfare, which in turn presupposes that the exemption of a specific dealing with an earlier copyrighted work from copyright liability will not disproportionately reduce creative incentives by barring copyright enforcement.

In that regard, I argue that the four statutory factors set out in § 107 Copyright Act may be perceived not only as representing the equities driving the application of copyright's rule of reason but also as dimensions of care since they essentially circumscribe, for instance, the amount of permissible copying in both quantitative and qualitative terms or the extent to which the secondary user may encroach upon the plaintiff's markets without infringing the earlier copyright. Reflecting a negligence calculus, the assessment of fair use does not lend itself to categorical presumptions and requires a meticulous correlation of all relevant factors within the framework of a structured rule of reason. Another implication of the nature of fair use as a negligence standard is that it induces the copyright owner to exercise care himself so as to minimise the risk of reduced authorial incentives. Given that defendant will escape liability if he complies with the standard emerging from the fair use analysis, the copyright owner qualifies as the ultimate bearer of the accident's costs. Hence, he will have an incentive to do anything that could minimise the potential loss including the development a market that has not yet exploited or some sort of positive action towards the elimination of transaction costs, which deprive him of licensing revenue, just to name two examples where the negligence standard implemented by the fair use doctrine prompts the copyright owner to exercise care. The analysis presents fair use as a negligence standard adopted to address a bilateral accident where both injurers and victims may minimise the costs associated therewith by exercising due care and adjusting their activity levels.

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

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

II. Strict liability and Negligence in the Law of Accidents

In this part, I briefly review the effectiveness of strict liability and negligence standards in inducing economically justifiable precautions when engaging in risky behaviour.¹² Drivers, for instance, may reduce the probability and, therefore, the social costs of accidents by increasing the level of care

¹² See generally, STEVEN SHAVELL, FOUNDATIONS OF ECONOMIC ANALYSIS OF LAW 177-206 (2004).

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they exercise while driving their cars. Increments in care are socially beneficial as long as their marginal cost to drivers remains lower than their marginal benefit in reducing the probability of an accident.¹³ Accordingly, the aggregate welfare of drivers (injurers) and pedestrians (victims) is maximized when drivers are incentivized to exercise a moderate degree of care. Social welfare is then maximized exactly because the expected total cost of accidents is minimized.¹⁴

A. Unilateral Accidents: Duties of Care and Activity Levels

Let's examine, at first, how tort law seeks to induce injurers into exercising the optimal level of care by holding them liable for causing an accident on the basis of a predetermined standard of liability.¹⁵ It is assumed that the injurers cannot alter their activity levels by choosing to drive more or less frequently, for instance.

In the absence of liability, there is no economic incentive for drivers to exercise care.¹⁶ The costs of precautions would then have to be borne by the victim.¹⁷ Under a strict liability standard injurers have an incentive to exercise moderate care.¹⁸ They cannot escape liability and incurring the costs of moderate care minimizes their combined costs of taking precautions and paying for accidents they might cause.¹⁹ Under a negligence regime, injurers have the possibility of avoiding any liability by acting according to a standard of reasonableness, which, at least from the standpoint of the economic analysis of law, which should induce a moderate level care since that is the degree of care that minimizes the social costs of accidents.²⁰ Injurers would take the efficient amount of precautions even under strict liability, since they have an economic incentive to act towards minimizing their own cost of taking precautions.²¹ Hence, in the case of unilateral accidents with fixed activity levels both strict liability and negligence are capable of creating incentives for injurers to act on their own interest towards the achievement of the socially efficient outcome.²²

¹³ ROBERT COOTER & THOMAS ULEN, *LAW & ECONOMICS* 201 (6th Ed. 2012); RICHARD A. POSNER, *ECONOMICS ANALYSIS OF LAW* 192-93 (9th ed. 2014).

¹⁴ GUIDO CALABRESI, *THE COSTS OF ACCIDENTS: A LEGAL AND ECONOMIC ANALYSIS* 26-29 (1970); COLE & GROSSMAN, *supra* note ___ at 272. See also Robert Cooter, *Unity in Tort, Contract and Property: The Model of Precaution*, 73 CAL. L. REV. 1 (1985)(arguing that the “equity goal of compensating victims and the efficiency goal of minimizing costs to society as a whole” are separate but complementary legal principles). It is not always desirable to eliminate the risk of accidents especially when some social benefit may be derived from some risky or even negligent activity. Therefore, some accident probability should be tolerated in most cases. See ALAN DEVLIN, *FUNDAMENTAL PRINCIPLES OF LAW AND ECONOMICS* 66-8 (2015).

¹⁵ THOMAS J. MICELI, *THE ECONOMIC APPROACH TO LAW* 19 (3rd ed. 2017); Cooter & Ulen, *supra* note ___.

¹⁶ SHAVELL, *supra* note ___ at 179.

¹⁷ COOTER & ULEN, *supra* note ___ at 201.

¹⁸ SHAVELL, *supra* note ___ at 179-80.

¹⁹ COOTER & ULEN, *supra* note ___ at 203.

²⁰ Richard A. Posner, *A Theory of Negligence*, 1 J. LEGAL STUD. 29 (1972)(arguing that Judge Learned Hand “unwittingly” sketched the economic underpinnings of the negligence standard in *United States v. Carroll Towing Co.*, 159 F.2d 169 (2d Cir. 1947) where he ruled that a defendant should be liable if the expected cost of the accident exceeds the cost of precaution (B). An accident’s expected cost is calculated by multiplying the probability of an accident (P) with a value representing the magnitude of the potential harm (L). Hence, liability emerging from the negligence calculus can be expressed in the following algebraic formula: $B > PL$).

²¹ COOTER & ULEN, *supra* note ___ at 206.

²² A. MITCHELL POLINSKY, *AN INTRODUCTION TO LAW AND ECONOMICS* 46 (2011); Shavell, *supra* note ___ at 181.

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Choices between the two alternative standards may be driven by various considerations.²³ Strict liability would be preferable to negligence, for instance, where the courts do not possess the requisite information to assess the optimal precaution costs.²⁴ Strict liability is, on the other hand, prone to increase the costs of the judicial system, since the prospect of successful litigation encourages victims to sue.²⁵ Negligence may, however, impose higher administrative costs than strict liability where disagreements over whether due care has been exercised, and therefore the probability of a trial, are more likely or where the cost of finding out what amounts to an efficient amount of precautions is particularly high.²⁶

Accidents may not only be avoided through the exercise of precautions. Injurers could also minimize the risk of accidents by reducing the degree to which they engage in dangerous activity.²⁷ They could drive less, for instance. On that account, potential copyright infringers could decrease the risk of creative incentives being cracked down as a result of their activity by reducing the frequency or the intensity in which they are dealing with works of authorship.

Activity levels would be excessive both under a rule of no liability and under a negligence standard. If the injurers are not bound to be held liable, or can simply avoid liability by exercising due care, then they are also not likely to consider reducing their levels of activity.²⁸

Notably, the marginal utility derived from increments in activity gradually diminishes. Under a strict liability regime rational injurers have an economic incentive to act efficiently, since the negative externalities of their activity will be fully internalized. They are under a legal obligation to compensate for any accident losses they might impose on victims. Hence, injurers would engage in risky behaviour only to the extent that marginal profits outweigh marginal costs including the cost of precautions, which is also the efficient outcome for society.²⁹

At first glance, strict liability seems to be superior to negligence in inducing the optimal amount of activity levels.³⁰ However, this would only be valid when the reduction of defendant's activity levels is indeed the welfare-maximizing standard of liability.³¹ Furthermore, where injurers are risk-averse towards the prospect of liability, which is very often the case, it is expected that activity levels would be suboptimal.³² Hence, in the copyright context, strict liability is likely to have a deterrent effect upon socially desirable dealings with copyrighted works such as parodies or transformative uses that

²³ MICELI, *supra* note __ at 22-3.

²⁴ DEVLIN, *supra* note __ at 71; POLINSKY, *supra* note __ at 46.

²⁵ STEVEN SHAVELL, *ECONOMIC ANALYSIS OF ACCIDENT LAW* 264 (1987).

²⁶ Hans-Bernd Schäfer & Frank Müller-Langer, *Strict liability versus negligence*, in MICHAEL FAURE (ed.) *TORT LAW AND ECONOMICS*, *ENCYCLOPEDIA OF LAW AND ECONOMICS* 24 (2nd ed. 2009); See generally, POLINSKY, *supra* note __ at 55; POSNER, *supra* note __ at 208; See also DEVLIN, *supra* note __ (noting that while the average cost of a strict liability case may be lower, it is likely that the total costs of negligence cases to exceed that of cases decided under a strict liability standard).

²⁷ Mitchell A. Polinsky, *Strict Liability vs. Negligence in a Market Setting*, 70(2) *AM. ECON. REV.* 363 (1980)(discussing excessive entry under negligence rules and suggesting that the problem could be solved if the negligence standard takes into account each firm's level of care and output); Steven Shavell, *Strict Liability Versus Negligence*, 9 *J. LEGAL STUD.* 1 (1980).

²⁸ Shavell, *supra* note __ at 12 (1980).

²⁹ *Id.* at 11.

³⁰ COOTER & ULEN, *supra* note __ at 212; POLINSKY, *supra* note __ at 51-2.

³¹ William M. Landes & Richard A. Posner, *The Positive Economic Theory of Tort Law*, 15 *GA. L. REV.* 851, 876-77 (1981).

³² SHAVELL, *supra* note __ at 260-61.

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increase social welfare. Fair use and the other limitations to copyright seek to avoid the over-deterrence of sociably desirable dealings of third parties with works of authorship.

B. Bilateral Accidents: Duties of Care and Activity Levels

Often accidents would not be attributed to one party only since both injurers and victims may be capable of taking precautions. The social costs of accidents could be further minimised when both parties exercise moderate care.³³ This occurs when both parties invest in precautions up to the level where their marginal cost equals the marginal benefit they generate in reducing the probability of accident without the probability of an accident necessarily being totally eliminated thereby.³⁴

The choice of a liability standard affects the equilibrium of the game of strategic interaction that injurers and victims engage into.³⁵ In the absence of any liability victims would not rationally do anything else than exercising moderate care as it is them who bear the total cost of accidents.³⁶ Under strict liability injurers' best choice is apparently to exercise moderate care since the victims' dominant strategy is not to take care.³⁷ To induce the victims to do their part in reducing the potential cost of accidents a defense of contributory negligence is necessary.³⁸

In contrast, a negligence standard imposing a duty to exercise moderate care on injurers would prompt both parties to take optimal precautions.³⁹ Injurers have an obvious incentive to exercise moderate care otherwise they would have to incur the total costs of accident losses. Given that injurers will escape liability if they comply with the duty of care imposed on them, victims have to act with a view of minimizing their own potential accident losses.

As already suggested, the efficient outcome may also be achieved under strict liability with contributory negligence.⁴⁰ Again, victims' failure to take the precautions necessary to minimize the expected social cost of accidents would make them liable in tort. Thus, exercising moderate care is the victims' dominant strategy, which in turn induces injurers to take moderate care as well.⁴¹ The same is valid under strict liability with comparative negligence.⁴² Victims would not be able to recover that part of the loss, which amounts to the percentage that their negligent behavior contributed to the total loss. Accordingly, victims have an incentive to incur the costs of moderate care because these are lower than the partial loss that would accrue later on as a result of their negligent behavior, that is their failure to minimize the social costs of accidents. Injurers have then no other choice than exercising moderate care since the victims' dominant strategy is to avoid comparative fault. Otherwise, they would have to face liability for an accident's total costs. Equally, negligence with contributory negligence also leads to the efficient outcome.⁴³

³³ John Prather Brown, *Toward an Economic Theory of Liability*, 2 J. LEGAL STUD. 323 (1973); HARRISON & THEEUWES, *supra* note __ at 270; COOTER & ULEN, *supra* note __ at 205.

³⁴ SHAVELL, *supra* note __ at 182-83.

³⁵ HARRISON & THEEUWES, *supra* note __ at 276; COOTER & ULEN, *supra* note __ at 205; DEVLIN, *supra* note __ at 72; SHAVELL, *supra* note __ at 182-83.

³⁶ HARRISON & THEEUWES, *supra* note __ at 280; SHAVELL, *supra* note __ at 183-84.

³⁷ HARRISON & THEEUWES, *supra* note __ at 281; SHAVELL, *supra* note __ at 184.

³⁸ POLINSKY, *supra* note __ at 49.

³⁹ MICELI, *supra* note __ at 25; SHAVELL, *supra* note __ at 185-86.

⁴⁰ SHAVELL, *supra* note __ at 184-85.

⁴¹ HARRISON & THEEUWES, *supra* note __ at 281-83.

⁴² SHAVELL, *supra* note __ at 187.

⁴³ HARRISON & THEEUWES, *supra* note __ at 283.

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

Absent liability, injurers would neither take precautions nor restrict their activity levels. Victims would, of course, seek to minimise their own expected costs.⁴⁴ Conversely, strict liability induces victims to refrain from exercising care and increase activity levels while injurers will seek to minimize their expected payoffs.⁴⁵

A liability standard based on negligence would indeed provide incentives for injurers to exercise the optimal degree of care but at the same time allow them to engage in excessive levels of activity.⁴⁶ In this case, the imposition of care duties on victims be it in the form of contributory or by means of comparative negligence would not have any effect on injurers' dominant strategy.⁴⁷

An attempt to make both parties coordinate their behaviour towards the efficient outcome through the choice of strict liability with either contributory or comparative negligence as the governing standard is unlikely to succeed either.⁴⁸ Victims will take due care but excessively raise the level of their activity. Injurers, on the other hand, are incentivized to take the efficient precautions and regulate their activity levels optimally. As noted while examining unilateral care scenarios with variable activity levels, strict liability does not necessarily induce injurers to engage in the relevant activity at an optimal degree. Risk averse injurers, for instance, would tend to lower their activities below the efficient level.

All this suggests that when it comes to accidents whose expectable cost can be reduced through measures taken by both injurers and victims, there is no standard of liability capable of inducing all parties involved to generate the efficient outcome by undertaking cost-justified precautions and optimize their activity levels.⁴⁹ Strict liability tends to reduce the levels of activity. Therefore it is relied upon where the reduction of activity levels is desirable.⁵⁰

C. The Challenges of Regulating Levels of Activity

The determination of optimal activity levels is a daunting task.⁵¹ Obtaining information as to how much should potential injurers drive, for instance, is particularly costly, if at all possible. It is actually more feasible to ascertain what the cost-justified precautions are in such a case. For this reason, it is also extremely difficult to create negligence standards of due care that would reflect considerations related to the optimality of activity levels.

Furthermore, a standard of liability might be particularly apt for inducing the optimal degree of care to which potential injurers are obliged without at the same time necessarily being the proper rule for regulating levels of activity.⁵² On top of that, activity levels themselves might be

⁴⁴ DEVLIN, *supra* note __ at 80.

⁴⁵ COOTER & ULEN, *supra* note __ at 212; SHAVELL, *supra* note __ at

⁴⁶ COOTER & ULEN, *supra* note __ at 212; MICELI, *supra* note __ at 38-9; POLINSKY, *supra* note __ at 52-3.

⁴⁷ SHAVELL, *supra* note __ at 202.

⁴⁸ *Id.* at 201-02.

⁴⁹ Shavell, *supra* note __ at 23 (1980).

⁵⁰ COLE & GROSSMAN, *supra* note __ at 301-03; POSNER, *supra* note __ at 206-07 (indicating that strict liability is the appropriate means for creating optimal incentives structures related to levels of activity when it comes to ultrahazardous activities); Shavell, *supra* note __ at 23 (1980).

⁵¹ Shavell, *supra* note __ at 22-3 (1980).

⁵² POLINSKY, *supra* note __ at 50-4.

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multidimensional in the sense that risky behaviour might be the resultant of various diverse activities that cannot be simultaneously regulated by the adoption of a common standard.

All this suggests, that the optimal rule might entail the adoption of a single standard of liability for inducing the optimal amount of care and a separate standard or even various standards for optimizing diverse types of activity levels.⁵³ Ideally, courts should establish, where possible, separate rules based on negligence about particular levels of activity.⁵⁴

III. Strict Liability and Negligence in Copyright

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

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

Copyright internalizes many of the positive externalities of creative works.⁵⁵ In principle, third parties may not enjoy the utility derived from a given work of authorship without the author’s consent. In fact, copyright internalizes the benefits that authors generate for society from the moment that their works are fixed on tangible medium of expression.⁵⁶ The creation of such an exclusive legal position is designed to bring about markets for authorial works endeavouring to incentivize the production of those goods and, at the same time, allow for their dissemination.⁵⁷ And the ultimate aim is to promote the progress of science and the useful arts.⁵⁸

Copyright’s challenge is to create a package of benefits that would be sufficient for maintaining incentives to produce creative works without internalizing those benefits that are essential to incremental authorship and whose public use promotes the utilitarian purposes of copyright protection. Since those benefits are not directly quantifiable but must be determined in abstract terms for the creative behavior of an indefinite number of potential authors to be steered effectively, copyright norms seek to devise an optimal “incentives package” by demarcating the boundaries of intangible property with as much clarity and precision as possible.⁵⁹ Analogous to the law of real property, copyright law enables authors to fence their property within some prescribed limits so as to extract benefits from its exploitation.

Intangible property manifests itself when fixed in a tangible medium of expression. However, the package of benefits meant to induce the production of creative works does not include those

⁵³ CENTO G. VELJANOVSKI, *ECONOMIC PRINCIPLES OF LAW* 197-98 (2007).

⁵⁴ Stephen G. Gilles, *Rule-Based Negligence and the Regulation of Activity Levels*, 21 J. LEGAL STUD. 319 (1992).

⁵⁵ See generally Wendy J. Gordon, *Intellectual Property*, in MARK TUSHNET & PETER CANE (eds.) *THE OXFORD HANDBOOK OF LEGAL STUDIES* 617 (2005).

⁵⁶ 17 U.S.C. § 102(a).

⁵⁷ Wendy J. Gordon, *An Inquiry Into the Merits of Copyright: The Challenges of Consistency, Consent and Encouragement Theory*, 41 STAN. L. REV. 1343, 1384-94 (1989).

⁵⁸ U.S. Const. art. I. sec. 8. cl. 8. The Intellectual Property Clause grants the Congress with authority “To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” *Mazer v. Stein*, 347 U.S. 201, 219 (1954): “The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and useful Arts.’ Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.”

⁵⁹ Gordon, *supra* note __ at 1378-84.

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benefits that remain external by dint of copyright principles such as the idea/expression divide,⁶⁰ the merger doctrine,⁶¹ or the exemption from liability of independent creation.⁶² Further, the boundaries of the author's property are marked by the scope of the exclusive rights, which the copyright owner is entitled to assert.⁶³ Trespass upon property does not simply transpire as a result of third parties having somehow dealt with a copyrighted work but only when that work has actually been used in a particular manner. Impermissible uses include the unauthorized reproduction, distribution, public performance or display of a work of authorship as well as its use for the preparation of derivative works.⁶⁴ The certainty as to the legal status of an exploitable resource that can be transferred in exchange for an economic benefit would facilitate the emergence of those markets where the rights holder could seek rents. It is envisaged that the effectuation of such transactions will eventually put works of authorship at their most efficient use. A property rule is necessary for enabling works of authorship to be transferred in voluntary transactions.

Property rules aim at the reallocation of resources in a manner that maximizes economic value. For resources to end up in the hands of those who value it the most through private bargaining, they must be subjected to the individual control of the owner, who determines the conditions under which third parties may deal with the intangible asset.⁶⁵ Strict liability is a necessary component of

⁶⁰ *Baker v. Selden*, 101 U.S. 99 (1879). On the welfare losses associated with protecting ideas in the copyright context see William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 347-50 (1989).

⁶¹ *Morrissey v. Procter & Gamble Co.*, 379 F.2d 675 (1967); *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738 (1971).

⁶² *Mazer v. Stein*, 347 U.S. 201 (1954): "[T]wo men, each a perfectionist, independently mak[e] maps of the same territory. Though the maps are identical each may obtain the exclusive right to make copies of his own particular map, and yet neither will infringe the other's copyright. Likewise a copyrighted directory is not infringed by a similar directory which is the product of independent work."

⁶³ Gordon, *supra* note __ at 1382-83.

⁶⁴ 17 U.S.C. § 106.

⁶⁵ In the IP context see generally Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 COLUM. L. REV. 2655 (1994); Robert P. Merges, JUSTIFYING INTELLECTUAL PROPERTY 5 (2011)(arguing that individual control is an appropriate means for administering intangible assets and makes sense from a policy perspective as much as property rights for tangible property do). While the intangible nature of the asset could not be taken to suggest that IP rights should not be designed as property rights, it may indeed indicate that in the case of copyright the scope of permissible third party uses would be broader than the one available to those wishing to deal with tangible products owned by another. This is primarily because works of authorship are non-rivalrous in consumption. As such, they are capable of being used extensively without losing their value. The constitutionally mandated policy of promoting the progress of science and the useful arts through the grant of exclusive rights to authors in respect to their writings presupposes that a significant number of dealings with copyrighted works, such as criticism and commentary, should be permitted during the copyright term. On this issue see Wendy J. Gordon, *Trespass-Copyright Parallels and the Harm-Benefit Distinction*, 122 HARVARD LAW REVIEW FORUM 62, 67 (2009)(making the point that "unlike land, a decentralized use of copyrighted work is unlikely to result in tragedy of the commons and more likely to suffer from tragedy of the anticommons." Therefore, she observes, copyright law has a broader "necessity" privilege than the tort of trespass to land and involves more "harmless but beneficial uses by third parties" than real property). Gordon then wonders whether some of our behavioural traits might affect the capacity of the market mechanism to "correct for" the misallocation of rights in works of authorship. Assuming that people are less motivated to capture benefits than to avoid losing a possession, copyright owners might in fact be reluctant to license socially desirable uses of their works. This "endowment effect" might be stronger when it comes to goods that we have created, as she suggests. But, on the other hand, irrational loss aversion may be counteracted by overconfidence about the financial returns of investments, which characterizes us. In turn, this overconfidence may result in excessive royalties. In other words, Gordon suggests that it may well be the case that copyright owners are not as good as owners of tangible products in maximizing the social value of their property.

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this structure. A negligence rule would allow third parties to circumvent the market reducing the efficiency of the owner's coordination.

Finally, an abstract norm such as the one holding defendants liable for trespass upon copyright property is more likely to create correct incentives because the behavioural guideline provided by such a norm is clearer and addresses the widest possible circle of individuals.⁶⁶ Generalized prescriptions are apt for creating rights in rem.⁶⁷ Moreover, rules are capable of promoting the type of individualism fostered by copyright laws because they allow the formation of strategies that promote self-interest and prevent the adjudicator from undermining the effect of actions undertaken at a later stage.⁶⁸

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

To facilitate the unfettered exploitation of the internalized benefits, copyright law dispenses with the necessity of proving actual copying.⁶⁹ Were the rights holder required to meet such a complex and, often, unattainable evidentiary burden, the low probability of succeeding in litigation would undermine copyright's incentive function if not eradicate it altogether. As a rule, defendants would be exposed to liability for infringing acts if the copyright owner is able to show that those third parties have had an opportunity to copy the protected work and there is some resemblance between the two works involved.⁷⁰ Moreover, in some cases of striking similarity the plaintiff would even be discharged from the burden of establishing that the defendant had indeed accessed the copyrighted work.⁷¹ The requirement of substantial similarity is there to clarify whether there has

⁶⁶ On this particular point see Louis T. Vischer, *Justifications and Excuses in the Economic Analysis of Tort Law*, in SABIHA P. KHANUM (ed.), *ECONOMIC TORTS* 22 (2009). On the correlation between norm specificity and deterrence see Isaac Ehrlich & Richard A. Posner, *An Economic Analysis of Legal Rulemaking*, 3 J. LEGAL STUD 257, 275-77 (1974).

⁶⁷ Anthony I. Ogus, *Quantitative Rules and Judicial Decision Making* in PAUL BURROWS & CENTO VELJANOVSKI, *THE ECONOMIC APPROACH TO LAW* 210, 211 (1981)(noting that disputes between individuals arising from property are more likely to be resolved under rules that feature a high degree of generality).

⁶⁸ Duncan Kennedy, *Form and Substance in Private Law Adjudication*, 89 HARV. L. REV. 1685, 1740-51 (1976)(noting that this non-interventionist approach marks the correspondence between rules and individualism). Depending on context, rules may suppress individualism since they disfavour arguments pertaining to the situation of an individual, see FREDERICK SCHAUER, *PLAYING BY THE RULES: A PHILOSOPHICAL EXAMINATION OF RULE-BASED DECISIONMAKING IN LAW AND IN LIFE* 162-63 (1991).

⁶⁹ *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 54 (2d Cir. 1936): "With so many sources before them they might quite honestly forget what they took; nobody knows the origin of his inventions; memory and fancy merge even in adults. Yet unconscious plagiarism is actionable quite as much as deliberate." See generally, GOLDSTEIN, *supra* note __ § 9.2.1; MELVILLE B. NIMMER & DAVID NIMMER, 4 NIMMER ON COPYRIGHT, § 13.01[B]; PATRY, *supra* note __ at § 9:21.

⁷⁰ *Bright Tunes Music Corp. v. Harrisongs Music, Ltd.*, 420 F.Supp. 177 (1976).

⁷¹ *Arnstein v. Porter*, 154 F.2d 464 (2d Cir. 1946).

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been trespass because it delineates the contours of copyright property.⁷² It seeks to ascertain whether the defendant has appropriated copyrightable expression.

Further insight could be gained if one views copyright legislation as the result of a bargain between authors and the state necessitated by the nature of intangible property as a public good.⁷³ In order to encourage reliance investments in the production and dissemination of works of authorship the state offers a consideration in the form of a guaranteed profit-maximizing opportunity.⁷⁴

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

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

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

⁷² Cf. Gordon, *supra* note __ at 457-65 (considering the requirement of substantial similarity as a principal difference between the tort of trespass to land and the tort of copyright infringement. In her view, copyright infringement does not mirror trespass to land because it imposes a requirement additional to the one of entry. Furthermore, she expresses the view that this requirement manifests the idea of copyright infringement being structured as a tort based on negligence because it is the substantial similarity between the two works that makes harm likely to occur. Finally, according to her view, improper appropriation reflects a fault standard, which differs in nature from strict liability). Without denying the correlation between substantial similarity and harm, or even fault, it seems to me that the inclusion of that requirement into the tort of copyright infringement is rather primarily associated with the particularities of demarcating intangible as opposed to physical property. Copyright law requires the plaintiff to show proof of access and similarity to avoid frivolous litigation given that he is relieved from the burden of proving actual copying. Apart from that, access and similarity are issues that the plaintiff can prove by at a lower cost. On these issues see Thomas R. Lee, *Pleading and Proof: The Economics of Legal Burdens*, Vol. 1997 BYU L. Rev. 1, 19-20.

⁷³ For an invocation and application of this theory see *Eldred v. Ashcroft*, 537 U.S. 186 (2003).

⁷⁴ See Robert P. Merges, *A Few Kind Words for Absolute Infringement Liability in Patent Law*, 31 BERKELEY TECH. L.J. 1, 44 (2016)(considering strict liability in copyright with reference to interdisciplinary literature in support of the proposition that inadvertent plagiarism does occur while highlighting the merits of patent law's absolute liability rule and explaining its reliance function). As a principle for demarcating the boundaries of copyright property the concept of inadvertent plagiarism has, of course, its weaknesses. In an environment where communications media are omnipresent, it may become too easy for the copyright owner to interfere with the creative efforts of others. See, Wendy J. Gordon, *Toward a Jurisprudence of Benefits: The Norms of Copyright and the Problem of Private Censorship*, 57 U. CHI. L. REV. 1009, 1031 (1990). Despite those weaknesses, it does not seem as if the contemporary principles of copyright infringement could be abandoned much like patent law's rule of absolute liability cannot be discarded. For copyright to be able to develop its function of internalizing benefits to secure authorial incentives such evidentiary easements are necessary. On the capacity of rules to encourage reliance see Schauer, *supra* note __ at 137-145.

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regulated separately so as to ensure the freedom of third parties to engage in them at an optimal level. All six favoured uses that are explicitly mentioned in the statute share the common characteristic of referring to potentially permissible dealings with copyrights, which furnish social benefits that outweigh the social losses accruing from the inability of the rights holders to enforce their rights.⁷⁵

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

But § 107 Copyright Act clearly prescribes legal framework that courts have to abide with. At first, the relevant activity is defined. Then, the courts applying the fair use doctrine determine the optimal level of that activity and introduce the level of care that third parties must exercise in respect to the copyright owner's legitimate interests.⁷⁶ Thus, in the case of copyright activity levels are defined exogenously⁷⁷ and subjected to negligence standards in order to maximize dealings with earlier works that serve copyright's policies.

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

This observation explains, in my view, two phenomena already highlighted by copyright scholarship. First, courts tend at times to 'stampede' the factor analysis and rather hold the doctrine of fair use applicable whenever they consider that the allegedly infringing act should be exempted from liability

⁷⁵ GOLDSTEIN, *supra* note __ § 12.2.1 at 12:13-12:14 (1996); Cf. MARSHALL A. LEAFFER, UNDERSTANDING COPYRIGHT LAW 498 (6th ed. 2014)(arguing that the common theme to the foreseen uses mentioned in the preamble is that they are all productive uses each one contributing its own "valuable creative element".

⁷⁶ In order to define the type of activity implicated in a given dispute the courts must engage into an analysis of the four factors and in particular the first factor. See *Pacific and Southern Co., Inc. v. Duncan*, 744 F.2d 1490, 1495 (11th Cir. 1984)(rejecting the fair use assessment of the district court, which considered that defendants could not rely on the defence without analysing the four factors because their news clipping business involved a type of use of earlier copyrighted works that was not comparable to those mentioned in the preamble of § 107 Copyright Act).

⁷⁷ On this approach and its alternatives see generally Nuno Garoupa & Thomas S. Ulen, *The Economics of Activity Levels in Tort Liability and Regulation*, in THOMAS J. MICELI & MATTHEW J. BAKER (EDS.), RESEARCH HANDBOOK ON THE ECONOMIC MODELS OF LAW 33, 41-2 (2014)(citing further literature).

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in the light of the fair use calculus.⁷⁸ Rather than arguing that the factors are quasi manipulated so as to correspond with the outcome of the legal assessment, one could say that the analysis of factors is simply indicative of the activity levels and the standard of care that the court deems appropriate in a given case. Second, the fair use doctrine is only seemingly indeterminate and despite its flexibility requiring a case-by-case analysis there is actually a considerable degree of certainty as to the uses that qualify as fair within the meaning of § 107 Copyright Act.⁷⁹ Copyright scholars have traced the patterns governing the judicial administration of the fair use doctrine in the consistent treatment of identified types of secondary uses and provided a taxonomy of putative fair uses.⁸⁰ Some “policy-relevant” clusters have been identified, which broadly circumscribe the types of dealings with copyrighted works that are privileged.⁸¹ It is submitted that this taxonomy emerges from the courts’ more or less unconscious predisposition to apply the fair use defence by inquiring upon the desirability of a given secondary use and examine whether the defendant has exercised due care towards the legitimate interests of the copyright owner after taking into account the optimal levels of activity.

IV. Legal Nature of Fair Use as a Negligence Standard

A. Why Combine Strict Liability With Negligence?

Apparently, the obligation of third parties to refrain from infringing earlier copyrights and their privilege to engage in uses that promote the broader utilitarian purposes of copyright law cannot be subjected to the same standard of care. Strict liability would adequately secure creative incentives for authors but it would suppress socially desirable activities. Negligence would maximise otherwise desirable activities but it would reduce authorial incentives. Hence, copyright law has adopted a mixed system of liability. The tort of copyright infringement is designed to mirror trespass involving

⁷⁸ David Nimmer, *“Fairest of Them All” and Other Fairy Tales of Fair Use*, 66 LAW CONTEMP. PROBL. 263 (2003); Cambridge University Press v. Patton, 769 F.3d 1232, 1260 (11th Cir. 2014): “Accordingly, we find that the District Court erred in giving each of the four factors equal weight, and in treating the four factors as a simple mathematical formula. As we will explain, because of the circumstances of this case, some of the factors weigh more heavily on the fair use determination than others.” cf. Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PENN. L. REV. 549 (2008)(bringing forward empirical evidence suggesting that “stampeding” is not a generalized phenomenon).

⁷⁹ Pamela Samuelson, *Unbundling Fair Uses*, 77 FORDHAM L. REV. 2537, 2539-44 (2009); Jonathan Griffiths, *Unsticking the Centre-Piece – the Liberation of European Copyright Law?*, 1 (2010) JIPITEC 87 paras 20-25 (criticizing the European reluctance to allow for more flexibility by adopting the fair use model on the grounds of a perceived conviction that the doctrine is unpredictable).

⁸⁰ Paul Goldstein, *Fair Use in Context*, 31 COLUM. J.L. & ARTS 433, 442-43 (2008)(noting that while the importance of taxonomising fair uses should be appreciated, regard must also be had to the dynamic nature of fair use analysis, which may lead to known secondary uses being assessed differently after considering technological or other market changes). Other attempts to unveil the regularities marionetting the application of the fair use defence include: Michael J. Madison, *A Pattern-Oriented Approach to Fair Use*, 45 WM. & MARY L. REV. 1525, 1623 et seq. (2004)(in favour of an interdisciplinary approach to fair use whereby the legality of defendant’s actions would be assessed for conforming with recognized social or cultural patterns); Matthew Sag, *Predicting Fair Use*, 73 OHIO ST. L.J. 47 (2012)(seeking to identify fact-patterns affecting fair use outcomes).

⁸¹ Samuelson, *supra* note ___. This rulification of fair use, see Niva Elkin-Koren & Orit Fischman-Afori, *Rulifying Fair Use*, 59 ARIZ. L. REV. 161 (2017), has an important advantage. To some –desirable– extent it turns fair use to a “class defense” as opposed to an “individualized defense” in the sense that these terms are used by Gideon Parchomovsky & Alex Stein, *Intellectual Property Defenses*, 113 COLUM. L. REV. 1483, 1531 (2013), who note that parodists, for instance, have created a harbour for everyone belonging to the same class with them and did not simply escaped liability for their own benefit. Parchomovsky and Stein explore ways to empower defendants relying upon “class defenses.”

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an interference with an individual's subjective right, which can be enforced against everyone. Such an abstract and general prohibition coordinates societal behaviour to promote a climate in which copyright is respected so that authorial incentives are effectively secured.⁸² At the same time, it is necessary to provide exceptions on a case-by-case basis since the utilitarian purposes of copyright presupposes that a certain amount of dealings with earlier works should be permissible. The structure of the fair use analysis reflects a type of decisionmaking that has been referred to as "rule-sensitive particularism."⁸³ Decisionmakers may deviate from the rule to accommodate the particularities of a specific case by taking into account all relevant factors but are required to take into account the value of having a rule at the same time. Negligence standards, on the other hand, are suitable for optimizing the levels of socially desirable activities. Hence, the tort of copyright infringement constitutes a mixed system for distributing liability that resorts to both strict liability and negligence to optimize duties of care and activity levels. Fair use adjudications eventually lead to the creation of negligence rules regulating activity levels. The statutory language, which defines the rights of the copyright owner by designating the infringing acts in §106 and then separately proceeds to prescribe fair use as a non-infringing dealing with an earlier work in §107, comports with the view suggesting that the Copyright Act has established a mixed system of liability involving two different standards.

B. Further Reasons Behind the Choice of the Test

We now turn to further explore the basis of liability and examine its nature.⁸⁴ Seeking to optimize third parties' levels of activity, the fair use doctrine relies on a negligence standard. Accordingly, the starting point of liability is based on the premise that the victim (copyright owner) should bear the loss unless the injurer (secondary user) fails the chosen test. Injurers are anyway in a better position to decide what precautionary measures must be taken since they are the ones who have an interest in dealing with an earlier work. Negligence is the proper standard because strict liability tends to reduce activity levels, which is not desirable in the case of copyright. Fair use principles correspond to a rather flexible standard requiring a case-by-case assessment. Such flexibility is absolutely

⁸² The effectiveness of any IP system depends not solely on the application of its legal rules but also on the observance of corresponding social norms, which would ideally deter the infringement of IP rights even in those cases where the law is inefficient because, for instance, rights are difficult to enforce. See, for instance, the problematic of file-sharing as illustrated by Lior Strahilevitz, *Charismatic Code, Social Norms, and the Emergence of Cooperation on the File-Sharing Networks*, 89 VA. L. REV. 505 (2003). For norms to be internalized by the individuals, they must somehow reflect a more or less unanimous consensus that the infringing conduct is undesirable, see generally Robert D. Cooter, *Structural Adjudication and the New Law Merchant: A Model of Decentralized Law*, 14 INTL. REV. L. & ECON. 215, 224 (1994) (discussing the evolution and efficiency of social norms and providing an analytical framework for adjudicating whether a social norm should be elevated to the level of law). This is more likely to happen when norms are characterized by a high degree of abstractness and generality because it is that type of norm that effectively commands immediate unanimous agreement, see Richard H. McAdams, *The Origin, Development, and Regulation of Norms*, 96 MICH. L. REV. 338, 383 (1997). In that regard, one could see at least some sense in drawing the parallels between the infringement of intellectual property rights and the concept of theft. This approach allows the emergence of esteem-based norms, which would eventually be internalized if individuals prefer to avoid shaming and disapproval than getting the benefit associated with non-compliance. A sense of guilt or shame is capable of leading to norm internalization, see Richard A. Posner, *Social Norms and the Law: An Economic Approach*, 87 AER 365, 366 (1997). See also Schauer *supra* note ___ at 42-3 (discussing the entrenchment of generalizations as a psychological phenomenon).

⁸³ Frederick Schauer, *Rules and the Rule of Law*, 14 HARV. J. L. & PUB. POL'Y 649-50 (1991).

⁸⁴ For an analysis of the considerations underlying the choice of tests for tortious liability see the observations of Guido Calabresi & Alvin K. Klevorick, *Four Tests for Liability in Torts*, 14 J. LEGAL STUD. 585 (1985).

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necessary not only because the aggregate effects of ad hoc negligence standards are more likely to increase social welfare. Technological advances create new markets for authorial works. Reprography, for instance, allowed the copyright owner to seek rents by charging for some of the newly possible secondary uses involving the photocopying of a literary work. Consumers, on the other hand, got the benefit of easier access to those works or became able to better enjoy their own lawfully acquired copies of an original work. When assessing the fairness of a new use, courts bear in mind that copyright enforcement should refrain from suppressing new technologies.⁸⁵ For all those reasons, fair use had to be designed as a flexible standard and not as a rigid rule.⁸⁶ In contrast, the type of individualism that the copyright system fosters is better achieved through rules.

In principle, fair use operates as an ex post negligence standard. Whether the defendant could have predicted what the requisite level of care was at the time the action was taken is irrelevant. Rather, fair use focuses on whether in the light of information available at the time of the dispute is adjudicated the secondary use is socially beneficial. The assessment aims at determining the result of a cost-benefit analysis that should have taken place before the allegedly infringing act. This has a further important implication. Foreseeability is not a determinative element of the tort but only a relevant factor.⁸⁷ Thus, the fair use calculus mirrors the flexible but structured “balancing-approach” of general tort law⁸⁸ in that it implements the incentives-access paradigm.

⁸⁵ GOLDSTEIN, *COPYRIGHT’S HIGHWAY – FROM GUTENBERG TO THE CELESTIAL JUKEBOX*, Chapters 2-4, (2nd ed. 2003)(explaining how the encounters between copyright and new technologies raise questions about the qualification of a secondary use as part of the author’s or the user’s rights and the implications that such decisions may have upon technological developments). As Shavell, *supra* note ___ at 23 (1980) suggest, the negligence standard should consider the appropriate level of investment incurred by third parties to develop innovative products.

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

⁸⁷ STEPHEN J. SPURR, *ECONOMIC FOUNDATIONS OF LAW* 150-1 (2nd ed. 2010) (noting that the element of foreseeability can be included into the calculus of the “Learned Hand Rule”). Scholars who view the tort of copyright infringement as a system of liability mirroring negligence suggest that the introduction of a foreseeability requirement would bring copyright law in alignment with its tort law moorings by confining copyright owners to redress for foreseeable harms arising from interference with core-markets or markets that are likely to be developed and whose prospect materially affects an ex ante decision to create a work of authorship, see, Shyamkrishna Balganesh, *Foreseeability and Copyright Incentives*, 122 HARV. L. REV. 1569 (2009)(arguing also that a requirement of “foreseeable copying” would keep the scope of copyright protection to the level that is actually necessary for creative works to emerge). See also, Christina Bohannon, *Copyright Harm, Foreseeability, and Fair Use*, 85 WASH. U. L. REV. 969 (2007)(arguing in favour of a harm-based approach under which harm should be inferred from foreseeable uses while proof of harm should be required for less foreseeable ones). In any event, as a factor of a broader balancing test the fact that a secondary use was not foreseeable may indicate that the defendant has been able to come up with a very innovative contribution such as making new forms of research possible, see, for instance, *Authors Guild v. Google, Inc.*, 804 F.3d 202 (2nd Cir. 2015). For those wishing to confine the copyright owner to the rents available in foreseeable markets, a way of getting around this doctrinal obstacle is to structure the tort of copyright infringement as a tort of interference with a market prospect protecting an author’s “objectively reasonable expectations” without satisfying any “purely subjective desire for a windfall”, see Shyamkrishna Balganesh, *Copyright as Market Prospect*, 166 U. PA. L. REV. 443, 487 (2018).

⁸⁸ See generally DAN B. DOBBS, PAUL T. HAYDEN & ELLEN M. BUBLICK, *THE LAW OF TORTS*, § 161 (2nd ed. 2011).

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At first glance it seems that ex post negligence standards are ill-equipped to facilitate future decisions. If the outcome depends on what will later be deemed reasonable with the advantage of hindsight, third parties would then have to act on the basis of uninformed decisions. On the other hand, an ex post standard would create incentives for the secondary users to gather information about the requisite level of care. And in any event, due to the unceasing and ubiquitous nature of everyday dealings with earlier copyrights, courts have numerous possibilities to apply the fair use doctrine gathering a wealth of information about precautionary measures that need to be taken once somebody decides to use copyrighted material for a legitimate purpose. It is also the nature of copyright disputes such that in the overwhelming majority of cases it is relatively easy for the court to assess the optimal levels of care with some help from earlier case law, custom⁸⁹ and evidence adduced by the parties to the dispute.⁹⁰

Fair use is an affirmative defence placing the burden of proof on the defendant.⁹¹ In that regard, a distinction should be drawn between the burden of persuasion and the burden of production.⁹² First of all, it should be noted that it makes sense for the defendant to bear the burden of persuasion. Otherwise, there is the danger of the plaintiff not being able to capture the full value of its work if he has to face weak or even frivolous defences that would coerce him to settle disputes.⁹³ Furthermore, it would undermine the effectiveness of plaintiff's rights if he is made to establish the absence of any illegality including the unfairness of the secondary use.⁹⁴ Since there are many types of dealings – more than those encountered in real property law⁹⁵ – with an earlier work that are in principle socially desirable, copyright law tends to exempt from liability a greater amount of secondary uses than property law does. Many of those activities, if carried out excessively, would annihilate copyright policy where the secondary use disproportionately interferes with the economic interests of the copyright owner. Placing the burden of persuasion on the plaintiff would reduce the potency of the property right as it would render it difficult to defend in practice against a multitude of trespassers.⁹⁶

⁸⁹ Custom cannot be determinative because in that case defendants would have had an incentive to stick with customary precautions and avoid taking useful risks that might be necessary for innovation to emerge. On this point, see Parchomovsky & Alex Stein, *Torts and Innovation*, 107 MICH. L. REV. 285 (2008).

⁹⁰ There are, of course, constellations such as the case of music piracy, for instance, where obtaining the information necessary for an assessment of market harm as a result of the secondary use would be anything but easy. See generally, Stan J. Liebowitz, *Back to the Future: Can Copyright Owners Appropriate Revenues in the Face of New Copying Technologies?*, in WENDY J. GORDON & RICHARD WATT, *THE ECONOMICS OF COPYRIGHT: DEVELOPMENTS IN RESEARCH AND ANALYSIS 1* (2003). Nevertheless, the courts have managed to come up with sensible decisions in this field. See *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *Recording Industry Ass'n of America v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072 (9th Cir. 1999).

⁹¹ *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 561 (1985); See generally WILLIAM F. PATRY, *PATRY ON FAIR USE*, § 2:5.

⁹² See generally LINDA J. SILBERMAN, ALLAN R. STEIN & TOBIAS BARRINGTON WOLFF, *CIVIL PROCEDURE – THEORY AND PRACTICE 9-10* (3rd ed. 2009).

⁹³ On this function of the burden of proof see Parchomovsky & Stein, *supra* note __ at 1531 (2013).

⁹⁴ Cf. POSNER, *supra* note __ at 845 (explaining the rationale behind shifting the burden of proof to the defendant through affirmative defences).

⁹⁵ Gordon, *supra* note __ at 67.

⁹⁶ Cf. Thomas Cotter, *The Precompetitive Interest in Intellectual Property Law*, 48 WM. & MARY L. REV. 483, 551 (2006) (drawing a parallel between the antitrust plaintiff and the IP defendant who relies on the affirmative defence of fair use and arguing that placing the burden of persuasion on the IP defendant is

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As far as the burden of production is concerned it is an issue that primarily relates to the need to economize on costs of evidence production. Affirmative defences are usually utilised to place the burden of production to the defendant when the latter can adduce evidence at a lower cost.⁹⁷ An advantage of the affirmative defence doctrine is that it draws a distinction between issues that arise less frequently in litigation (fair use) and issues that always arise (prima facie case). Shifting the burden of proof to the defendant (requiring him to produce evidence indicating that the secondary use is fair) saves the cost associated with raising the less frequent issues in all cases by the plaintiff.⁹⁸ Furthermore, the fact that defendants must plead affirmative defences offers the benefit of narrowing down the scope of the issues that will eventually be adjudicated.⁹⁹ By raising one specific issue related to fair use or another defence the defendant provides a signal to the plaintiff and the court about the specific issue that is going to be disputed narrows the scope of litigation and avoids the unnecessary procedural costs of assessing broader claims.

While the burden of proof rests with the defendant, courts may modify this principle in respect to the burden of production only in order to efficiently allocate the cost of producing evidence. Plaintiffs could be called upon to establish, for instance, that a well-established system for the licensing of excerpts from copyrighted works is in place although it is the defendant who has to bear the ultimate burden of persuasion.¹⁰⁰ Those are instances where the plaintiff can be more efficient in providing the court with the necessary information. The above considerations indicate that the nature of the fair use doctrine as an affirmative defence is dictated by the very purpose of copyright protection, which is to safeguard the author's property rights and allow access to authorial works in respect to some uses when the social benefit of their externalization is high enough to overcompensate the loss in authorial incentives that results from an inability to enforce copyright.¹⁰¹

In the context of fair use analysis it is therefore possible to enjoy the virtues of negligence and avoid a great deal of its drawbacks. Another advantage of negligence that copyright law embraces is the

desirable when false positives must be avoided and a reduction of the cost for protecting the property right is desirable).

⁹⁷ See generally Bruce L. Hay & Kathryn E. Spier, *Burdens of Proof in Civil Litigation: An Economic Perspective*, 26 J. LEGAL STUD. 413, 427-28 (1997).

⁹⁸ Lee, *supra* note ___ at 7.

⁹⁹ *Id.* at 8.

¹⁰⁰ *Cambridge University Press v. Patton*, 769 F.3d 1232, 1279-80 (2014).

¹⁰¹ Critics of the affirmative defence doctrine as it applies in the field of copyright law argue that placing the burden of proof on the defendant is problematic for uses that involve the freedom of speech as it requires "the speaker to prove an entitlement to speak." Lydia Pallas Loren, *Fair Use: An Affirmative Defense?*, 90 WASH. L. REV. 685, 709 (2015)(examining arguments related to the wording of the statute and the legislative history to support the view that fair use should not be treated as an affirmative defense). Quite a few scholars share this view. See indicatively Ned Snow, *Proving Fair Use: Burden of Proof as Burden of Speech* 31 CARDOZO L. REV. 1781 (2010) It seems, however, that the fair use doctrine is capable of accommodating those concerns through its rulification. Fair use adjudication has increased the predictability of the fair use doctrine providing defendants with robust precedents that could effectively be invoked to protect their freedom of speech in front of sensible judges. Concluding on an issue that cannot be discussed any further on this day, an additional argument that could be brought forward in favour of the proposition that fair use is an affirmative defence can be derived from the language of the statute, which uses a negative expression to clarify that fair use does not amount to an infringing act. Traditionally, the plaintiff is required to prove affirmative claims on the grounds of negative averments being more difficult to establish. This suggestion does not hold true in every case and it could be criticised from different perspectives. But the economic justification provided above, namely that it would be inefficient to require plaintiffs to show the absence of any limitation to their claim indicates that there is some reason in it. On this point see Lee, *supra* note ___ at 7-10.

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ability to optimize levels of activity by personalising the standard of care.¹⁰² Everyone can thereby do their possible best, so to say, to engage in activities that promote the goals of copyright.¹⁰³ An appropriation artist, for instance, may enjoy a broad leeway in dealing with an earlier work¹⁰⁴ whereas someone who photocopies journal articles for profit would be subjected to more restrictive duties of care.¹⁰⁵ In the end, fair use seeks to efficiently personalise the levels of care by creating rules that are applicable either to the particular defendant or to specific groups of individuals such as news reporters.

Thus, in practice, the fair use doctrine would often operate as an ex ante negligence standard.¹⁰⁶ Notwithstanding the constructive criticism on the doctrine being vague and unpredictable,¹⁰⁷ it has been possible to derive from the mass of fair use case law a substantial body of rules that are sufficiently precise and inclusive.¹⁰⁸ Despite its amorphous nature, the fair use doctrine is highly predictable. Any remaining degree of uncertainty is offset by the social value obtained through the operation of a copyright system that uses strict liability to incentivize the production of authorial works while seeking to optimize activity levels through a negligence standard. Potential losses in legal certainty form part of the fair use calculus already.¹⁰⁹ Precedent has therefore transformed a

¹⁰² Omri Ben-Shahar & Ariel Porat, *Personalising Negligence Law*, 91 NYU LAW REVIEW 628, 656-59 (2016). At first glance, strict liability seems to be superior to negligence when the welfare maximizing solution would require different groups of potential tortfeasors to exercise different levels of care depending on their distinct cost functions. It has been suggested, though, that the same outcome could be achieved through a negligence rule that requires the exercise of maximum care by those tortfeasors that face lower costs of care with liability then increasing proportionally to the departure of potential tortfeasors from that standard, see Thomas J. Miceli, *On Negligence Rules and Self-Selection*, 2 RLE 349 (2006). Thus, neither strict liability nor negligence could be in abstract terms considered preferable in view of their decentralisation effect. See generally, Schäfer & Frank Müller-Langer, *supra* note __ at 24-7. As already suggested, efficient self-selection is achieved in the field of copyright infringement through the imposition of specific standards of care regulating activity levels that result from the fair use analysis.

¹⁰³ On the positive externalities rationale for fair use see Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1280-83 (2008)(critical of the actual efficacy of the doctrine); Brett M. Frischman & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257, 302 (2007)(analyzing the “spillover benefits” of fair uses).

¹⁰⁴ *Blanch v. Koons*, 467 F.3d 244 (2nd Cir. 2006).

¹⁰⁵ *Princeton Univ. Press v. Mich. Document Servs., Inc.*, 99 F.3d 1381 (6th Cir. 1996).

¹⁰⁶ This is also because the application of negligence standards tends to produce a rich amount of publicly available information about the risk because third parties obtain detailed data about how courts have calculated the optimal degree of care in various cases. On this point see, Schäfer & Müller-Langer, *supra* note __ at 27-9.

¹⁰⁷ LAWRENCE LESSIG, *FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY* 187 (2004); Jessica Litman, *Revising Copyright Law for the Information Age*, 75 OR. L. REV. 19, 45-6 (1996). Various suggestions have been made to increase the predictability of the fair use assessment. See Gideon Parchomovsky & Kevin Goldman, *Fair Use Harbors*, 93 VA. L. REV. 1483 (2007)(suggesting the introduction of “safe harbors”); Michael W. Carroll, *Fixing Fair Use*, 85 N.C. L. REV. 1087, 1147 (2007)(proposing the creation of a “Fair Use Board” in the U.S. Copyright Office which would issue clearance letters exempting individual uses from liability). It has also been argued that fair use should be adjudicated by specialist courts, David Nimmer, *A Modest Proposal to Streamline Fair Use Determinations*, 24 CARDOZO ARTS & ENT. L.J. 11 (2006).

¹⁰⁸ Samuelson, *supra* note __ at 2421-44.

¹⁰⁹ GOLDSTEIN, *supra* note __ § 12.1 at 12:3.

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pure standard into a hybrid still dominated by “standard-like” elements while accommodating significant “rule-like” aspects.¹¹⁰

C. Copyright’s Rule of Reason

Every area of law has its own rule of reason. In the case of copyright,¹¹¹ the core rule is intended to maximise the rent-seeking opportunities of rights holders while allowing enough breathing space for dealings with earlier works which are capable of promoting knowledge and further scientific development.¹¹² Fair use, which is an expression of that principle,¹¹³ aims at reconciling ostensibly competing public interests.¹¹⁴ The public interest in the optimal inducement of creative works through economic benefits derived from the market and the public interest in the “broad public availability of literature, music, and the other arts.”¹¹⁵ As a starting point, the copyright owner is entitled to the maximum financial return that his work is likely to generate because it is only then that he obtains the market value of his creative contribution. This also allows for a more detailed determination of the copyright owner’s economic interests, which will eventually be balanced with the interests of the other members of the society. On the other hand, as the Second Circuit has colourfully observed, fair use analysis requires courts to “occasionally subordinate the copyright holder’s interest in a maximum financial return to the greater public interest in the development of art, science and industry.”¹¹⁶ Importantly, the fair use defence is not a rule whose objective lies in the achievement of static net social welfare. The application of the fair use doctrine should not therefore permit the usurpation of the copyright owner’s markets with the argument that in a given case copying is socially beneficial without considering the parallel reduction in authorial incentives that the secondary use entails.¹¹⁷ Thus, where the market mechanism is not the proper means for allocating the resource at issue either because the secondary use is not one that should be commodified or there is some sort of market failure that prevents the relevant market from

¹¹⁰ Kaplow, *supra* note ___ at 561 and 577-79 explains how legal commands may mix rules and standards in varying degrees. He also illustrates how precedent may transform a standard into a rule when courts end up applying the precedent instead of administering the standard. Such complete transformation is not likely to occur in the case of fair use because the courts are anyway obliged to assess the four factors both individually and in aggregate. It is rather unlikely for the fair use analysis to be substituted by a long list of defences given especially that the flexibility of the doctrine is necessary for considering technological advances when deciding cases of copyright infringement. See also Schauer, *supra* note ___ at 650-51. Conversely, the strict liability rule for copyright infringement is standard-like only to the extent that a finding of infringement also requires a specific form of dealing with the earlier work described in § 106 Copyright Act.

¹¹¹ U.S. House Report House Report on Copyright Act of 1976, H.R. Rep. No. 1476, 94th Cong., 2d. Sess. (1976) at 65. See also *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 448 (1984).

¹¹² William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659, 1767 (1988). The consequentialist nature of the fair use analysis is further discussed by Bracha & Goold, *supra* note ___ at 949-50 & 990-91.

¹¹³ Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1109-10 (1990)(nothing that fair use along with the doctrines refusing to protect ideas as opposed to their expression and excluding pure facts from protection stem from the same underlying rule).

¹¹⁴ Glynn S. Lunney Jr, *Fair Use and Market Failure: Sony Revisited*, 82 B.U. L. REV. 975, 981 and 999 (2002).

¹¹⁵ *Sony*, 464 U.S. at 432. The consequentialist nature of the fair use analysis is discussed by Bracha & Goold, *supra* note ___ at 948-49.

¹¹⁶ *Berlin v. E. C. Publications, Inc.*, 329 F.2d 541, 544 (1964).

¹¹⁷ *Princeton University Press v. Michigan Document Services, Inc.*, 99 F.3d 1381, 1391 (6th Cir. 1996)(The court rejected a copy shop owner’s argument that the social benefit derived from its copying of course materials for students and professors trumped the publishers’ loss of licensing revenue. Agreeing with the district court, the opinion noted that “the destruction of this revenue stream can only have a deleterious effect upon the incentive to publish academic writings”).

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optimally allocating that resource.¹¹⁸ High transaction costs, for instance, may prevent bargains that would have otherwise taken place under normal conditions. On the other hand, the right to write a critical review of someone else's book, for instance, is a use that should not be commodified in principle given that the copyright owner would tend to refuse a license to avoid undesirable criticism, especially when his "priceless" reputation/esteem is at stake, thwarting thereby the transfer of the entitlement to its highest-valued user.¹¹⁹

For the mixed system of liability to operate effectively towards the implementation of the constitutional mandate, the two standards should not contradict each other. This presupposes that the application of the fair use defence would not eventually undermine the reliance investments of authors. Just as much as it is important not to suppress socially desirable dealings with earlier works it is equally important to avoid defeating a sensible rule mandating the grant of property rights in authorial works through an overly generous application of its exception.¹²⁰ Apparently, the fair use analysis implements a structured balancing test.

¹¹⁸ Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600 (1982) (noting that a number of socially desirable secondary uses would be exempted from liability due to the impossibility of reaching bargains). Drawing upon the categorical distinction between excuses and justifications in tort law, Gordon then distinguishes between excused and justified fair uses. Excused uses refer to situations where the market mechanism allows for the welfare-maximizing outcome to emerge but due to the lack of perfect market conditions as it may happen, for instance, in the case of high transaction-costs bargaining does not eventually take place (market malfunction). Fair use may be denied if this would significantly harm the plaintiff's economic interests. Furthermore, fair use should disappear once the relevant market failure is remedied. An example thereof can be found in *Williams & Wilkins Co. v. U. S.*, 487 F.2d 1345 (Ct. Cl. 1973). Justified uses refer to situations where markets could not be relied upon to achieve the social optimum (market limitation). Critical and parodic uses of earlier works form the representative example of the latter category of exempted uses since the copyright owner might wish to suppress the critical review of his works. The same applies to non-monetizable interests and other non-monetary values such as teaching and scholarship. The copyright owner's economic interests are more likely to influence the outcome of the fair use calculus if market malfunction is present. See, Wendy J. Gordon, *Excuse and Justification in the Law of Fair Use: Commodification and Market Perspectives*, in NIVA ELKIN-KOREN & NEIL WEINSTOCK NETANEL (eds.) *THE COMMODIFICATION OF INFORMATION* 149 (2002). Gordon's greatly influential analysis has enriched us with invaluable insights on the nature and the function of the balancing test that the fair use doctrine entails. Her work is often presented as being antithetical to a so-called "balancing theory." Proponents of the latter theory suggest that the market-failure approach may preclude a proper balancing of the equities underlying the fair use calculus and give prominence to the economic interests of the copyright owner, see Lunney, *supra* note __ and Lydia Pallas Loren, *Redefining the Market Failure Approach to Fair Use in an Era of Copyright Permission Systems*, 5 J. INTELL. PROP. L 1, 38-48 (1997)(discussing problems resulting from an approach that would consider "lost" permission fees as harm cognizable under the copyright laws). However, Gordon's analysis does not actually suggest that an initially fair use of an earlier work is automatically transformed into an infringing use because a market failure attributable to transaction costs has been remedied, see Wendy J. Gordon, *Market Failure and Intellectual Property: A Response to Professor Lunney*, 82 B.U. L. REV. 1031 (2002).

¹¹⁹ For a more in-depth analysis of this aspect see Gordon, *supra* note __ at 176-87.

¹²⁰ On this problem see, Frederick Schauer, *Exceptions*, 58 U. CHI. L. REV. 871, 897 (1991)(discussing how "ruleness" retains its nature even if ad hoc exceptions overriding the rule in exigent circumstances are possible and noting how the power to create ad hoc exceptions may involve the power to change the rule. In the case of copyright, the underlying rule of reason suggests exactly that while ad hoc exceptions are welcome, the default rule should not be changed at the stage of adjudication). Importantly, however, fair use should not be treated as an exception that should be construed narrowly. Quite the contrary, it should enjoy the exact scope attributed to it by the fair use analysis, see PATRY, *supra* note __ at § 2:5.

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It is the nature of the incentives-access paradigm as the underlying rule of reason that is actually dictating a mixed liability system combining a rule of strict liability and a standard of negligence.¹²¹

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

The role of the four factors is multifarious. They set out the contours of injurer's liability in negligence as resulting from the structured rule of reason just described. To varying degrees each one of those factors is programmed to take into account both the social utility generated by the secondary use and the interests of the copyright owner in a profit-maximizing opportunity as we shall see. In this capacity, the factors facilitate the assessment of fair use by guiding the courts' efforts to identify the equities involved in a given dispute. Making sure that the assessment is as thorough as possible and manageable the factors are there to minimize the possibility of error in setting the appropriate standard and, ideally, reducing the necessity for appellate review.¹²² Beyond that, the four factors are relied upon to define the level of care owed by third parties to the interests of the rights holder. At this stage, the paper will briefly sketch these concepts to examine them later in more detail in the part dedicated to case law analysis.

Starting with the first factor, which calls us to consider the nature and the character of the new use, the potential social benefit of the new use is assessed by asking whether the secondary user has created something that simply supersedes the objects of the original work¹²³ or instead "adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message."¹²⁴ Under this approach a parody, for instance, generates social value by contributing another viewpoint to our understanding of an earlier work.¹²⁵ A service that allows us to search for particular terms within a long text may provide us with information about the books available in the marketplace.¹²⁶ But creating a trivia quiz book testing the public's knowledge of the characters and the plot of TV show would not amount to fair use where the secondary user essentially repackages scenes from the earlier work without serving any further transformative purpose such as criticism or parody.¹²⁷ Transformativeness is thus an indication that the new use has something to offer in terms of added social utility.¹²⁸ Under the same factor one must also consider whether there is some commercial motivation behind defendant's acts.¹²⁹ Courts would have to inquire upon whether the defendant has been engaging in some sort of welfare enhancing activity

¹²¹ Hence, the tort of copyright infringement is designed in a manner so that undesirable features of rules like over- and under-inclusiveness or utter selfishness is corrected through the application of the fair use doctrine while the inefficiency of the negligence standard in optimally securing authorial incentives and allocating property rights is corrected by the default strict liability rule.

¹²² See Sag, *supra* note __ at 575-76 (arguing that such proxies are generally useful in reducing the informational considerations courts have to take into account at a manageable level); Leval, *supra* note __ at 1110-11. See also Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CALIF. L. REV. 1581, 1601-03 (2006)(relying on empirical studies of decision making to highlight the importance of core factors in deciding complex issues); Kaplow, *supra* note __ at 566-67 (distinguishing between simple and complex standards whereby the degree of complexity depends on the number of factors to be considered).

¹²³ *Folsom v. Marsh*, 9 F.Cas. 342 (No. 4,901) (CCD Mass. 1841).

¹²⁴ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994).

¹²⁵ *Id.* at 579.

¹²⁶ *Authors Guild v. Google, Inc.*, 804 F.3d 202, 214-18 (2nd Cir. 2015).

¹²⁷ *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, 150 F.3d 132, 142-43 (2nd Cir. 1998).

¹²⁸ Leval, *supra* note __ at 1111.

¹²⁹ *Campbell*, 510 U.S. at 584.

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rather than seeking to derive financial gain from the market value of the earlier work.¹³⁰ Surely, if commercialism were given presumptive force even the illustrative uses listed in the preamble of § 107 Copyright Act would qualify as unfair uses since news reporting, comment, criticism, teaching, scholarship, and research are normally conducted for profit.¹³¹ At times, commercial gain would be vital to the maintenance of optimal activity levels for expressive uses by securing financial support. In practice, minor importance is usually ascribed to the commercial aspects of an otherwise socially desirable secondary use.¹³²

Apparently, transformativeness and commercialism express equities related both to the profit-maximizing incentives that authors require and the broader utilitarian goals of copyright. Simultaneously, these two terms refer to different dimensions of care. The more transformative the new use the less likely it becomes that the defendant will fail to exercise due care.¹³³ Duties of care may also be imposed by determining the intensity of commercial activity a secondary user is allowed to exercise.¹³⁴

The second factor instructs us to consider the nature of the earlier work. Protection of factual works should be thin¹³⁵ as the dissemination of information goes in tandem with copyright policy.¹³⁶ It is also unlikely to interfere with the internalization of benefits that copyright aims to effectuate. The opposite is more likely to happen where original expression is copied. Under this factor courts also consider the interest of authors in the right to control the first publication of their works, which is also of great economic importance.¹³⁷ Special cases excluded, it is only seldom that the second factor turns out to be decisive when assessing fair use.¹³⁸ Negligence rules emerging from fair use adjudications essentially define precautionary measures by determining the qualitative aspects of permissible copying.

Similar to the second factor, the third factor's role is primarily directed at determining an appropriate level of care. Hardly ever does the assessment under the third factor play a determinative role.¹³⁹ The essential question addressed by the said factor could be phrased as follows: Given the social value of the secondary use and the reduction in authorial benefits that it requires, how much is the defendant able to copy without running afoul the respective negligence

¹³⁰ MCA, Inc. v. Wilson, 677 F.2d 180 (1981): "The court should also look at the purpose and character of the alleged infringing use, including its commercial or non-profit educational motivation or design. While commercial motivation and fair use can exist side by side, the court may consider whether the alleged infringing use was primarily for public benefit or for private commercial gain." See also Princeton University Press v. Michigan Document Services, Inc., 855 F.Supp. 905, 909 (E.D.Mich.1994)(finding that the reproduction of course materials by a commercial copyshop amounted to "pure copying for profit").

¹³¹ *Campbell*, 510 U.S. at 584.

¹³² GOLDSTEIN, *supra* note __ at § 12.2.2 – 12:28.

¹³³ *Google*, 804 F.3d at __ (2nd Cir. 2015).

¹³⁴ *Seltzer v. Green Day, Inc.*, 725 F.3d 1170, 1175-78 (9th Cir. 2013).

¹³⁵ *New Era Publications Intern., ApS v. Carol Pub. Group*, 904 F.2d 152 (2nd Cir. 1990): "[T]he scope of fair use is greater with respect to factual than non-factual works."

¹³⁶ *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 563 (1985): "The law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy."

¹³⁷ *Id.* at 564-69 (1985); *Salinger v. Random House, Inc.*, 811 F.2d 90, 97 (2nd Cir. 1987)

¹³⁸ *Beebe*, *supra* note __ at __

¹³⁹ *Beebe*, *supra* note __ at __ The second and the third factor were deemed to be of limited relevance in major fair use cases such as *Sony Corp. of Am. v. Universal City Studios*, 464 U.S. 417, 449-50 (1984); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 589 (1994); *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1522, 1526-27 (9th Cir. 1992); *Authors Guild, Inc. v. HathiTrust*, 755 F.3d 87, 98 (2d Cir. 2014).

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standard? Of course, the greater the amount and the substantiality of the material copied is, the less likely it becomes for the secondary use to have the social value of a transformative use¹⁴⁰ while the likelihood of the defendant impermissibly encroaching upon the economic benefits reserved for the rights holder increases.¹⁴¹ The courts would often identify specific parts of an earlier work such as the “core” or the “heart” of a song, a book or a video.¹⁴² Such determinations can also be seen as parameters of due care. In view of the social value contributed by a parody, the parodist’s duty of care usually does not involve an obligation not to copy the very “heart” of an earlier work because otherwise the socially beneficial use would be disproportionately suppressed.¹⁴³ But someone who appropriates the informative essence of an unpublished work before its publication has obviously failed to exercise due care.¹⁴⁴

Often characterized as the most important of all factors, the fourth factor inquires upon the economic harm that the copyright owner has to sustain in case the secondary use escapes liability and whether this is proportional to the accruing social benefit as already identified under the first factor.¹⁴⁵ As a rule, the internalizing function of the copyright owner’s exclusive right “should be extended into every corner of copyright use”¹⁴⁶ since the grant of legal exclusivity is perceived as a profit-maximizing opportunity even though it is meant to promote broader utilitarian aims. Since the copyright owner would often have to partially forego some of the economic benefits associated with his exclusive legal position, case law has divided the incentives package into identifiable pieces or market segments¹⁴⁷ not only with the aim of balancing the equities involved but also to determine levels of care. Courts would identify “core”, “traditional markets”,¹⁴⁸ “primary” or “original markets”,¹⁴⁹ “markets likely to be developed”, “potential markets” or “reasonable markets”¹⁵⁰ to identify whether a certain loss of economic benefits is justifiable in the light of the social benefit that the new user offers. Such questions emerge when courts have to assess, for instance, whether a photographer is entitled to prevent an appropriation artist from including one of his photos into a collage and sell it.¹⁵¹ Reasonable markets, that is markets that are neither developed nor already envisaged of part of a broader business expansion plan may be internalized to the benefit of the copyright owner when it is established that the respective rents are necessary to induce creativity in

¹⁴⁰ *Campbell*, 510 U.S. at 587.

¹⁴¹ *Campbell*, 510 U.S. at 587; *Google*, 804 F.3d at 221.

¹⁴² *Los Angeles News Service v. KCAL-TV Channel 9*, 108 F.3d 1119, 1122 (9th Cir. 1997); Other courts use these terms as proxies, see *Salinger*, 811 F.2d at 98-9.

¹⁴³ *Campbell*, 510 U.S. at 588.

¹⁴⁴ *Harper & Row*, 471 U.S. at 600-01 (1985).

¹⁴⁵ Hence, the main considerations underlying the fair use analysis are strongly reflected in the first and the fourth factor. One may accordingly wonder whether the assessment of the fair use defence could gain in predictability by relying upon a two-factor test. See Joseph P. Liu, *Two-Factor Fair Use?* 31 COLUM. J.L. & ARTS 571 (2008).

¹⁴⁶ GOLDSTEIN, *supra* note __ at __ § 12.2.2 – 12:61.

¹⁴⁷ In that regard, courts engage into assessments that are akin to the definition of a relevant market for the purposes of applying the antitrust laws. While market definition in antitrust law seeks to examine the degree of competitive pressure that defendant faces, the delineation of a relevant market for copyright purposes is necessary for determining the scope of the right. Defining a relevant mark in the context of copyright infringements proceedings while assessing fair use aims at implementing the copyright rule of reason. Cf. *Image Technical Services, Inc. v. Eastman Kodak Co.* 125 F.3d 1195, 1216-17 (9th Cir. 1997)(“The relevant market for determining the patent or copyright grant is determined under patent or copyright law.”).

¹⁴⁸ *American Geophysical Union v. Texaco*, 60 F.3d 913, 927 (2d Cir. 1994).

¹⁴⁹ *Los Angeles News Service*, 108 F.3d at 1122-23.

¹⁵⁰ *American Geophysical Union*, 60 F.3d at 930; *Castle Rock*, 150 F.3d at 145-46.

¹⁵¹ *Blanch v. Koons*, 467 F.3d 244 (2nd Cir. 2006).

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the primary market.¹⁵² Courts use also the terms “alternative” or “further” markets¹⁵³ to refer to the economic interest of copyright owners in seeking rents in markets that are opened up long after the point of creation as a result of some unexpected technological breakthrough. Authorial incentives would be reduced if it were prescribed beforehand that new particularly lucrative means of exploitation were not available to copyright owners.¹⁵⁴ As the Supreme Court has stressed, authors even have a reasonable expectation to benefit from any renewals or extensions of the copyright term legislated while their copyrights are still in force.¹⁵⁵ Copyright protection would be rendered pointless if the secondary use essentially deprives the copyright owner of his “traditional markets.”¹⁵⁶

¹⁵² *Castle Rock Entertainment, Inc. v. Carol Publishing Group, Inc.*, 150 F.3d 132, 145-46 (2nd Cir. 1998)(the court argued that the decision whether to market a quiz book based on a TV show lied with its producer who owned the respective copyright and not the defendant ruling that the fourth factor cut against the finding of fair use. “Although Castle Rock has evidenced little if any interest in exploiting this market for derivative works based on *Seinfeld*, such as by creating and publishing *Seinfeld* trivia books (or at least trivia books that endeavor to “satisfy” the “between-episode cravings” of *Seinfeld* lovers), the copyright law must respect that creative and economic choice.” Defendant’s use was deemed unfair primarily because it lacked transformative character without the court having to balance such harm with some sort of social benefit generated by the secondary use). In the same litigation the lower court observed that “It would [...] not serve the ends of the Copyright Act—i.e., to advance the arts—if artists were denied their monopoly over derivative versions of their creative works merely because they made the artistic decision not to saturate those markets with variations of their original”, *Castle Rock Entertainment v. Carol Pub. Group, Inc.*, 955 F.Supp. 260, 272 (S.D.N.Y. 1997). See also *Salinger*, 811 F.2d at 99: “the need to assess the effect on the market for Salinger’s letters is not lessened by the fact that their author has disavowed any intention to publish them during his lifetime. [The copyright owner] has the right to change his mind. He is entitled to protect his opportunity to sell his letters, an opportunity estimated by his literary agent to have a current value in excess of \$500,000.”

¹⁵³ *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1017 (9th Cir. 2001).

¹⁵⁴ Gordon, *supra* note __ at 1385.

¹⁵⁵ *Eldred v. Ashcroft*, 537 U.S. 186, 189 (2003)(upholding the constitutionality of the 1998 Sonny Bono Copyright Term Extension Act, which was enacted to extend the copyright term). Cf. Lades & Posner, *supra* note __ at 228-34 (arguing that ad hoc extensions of protection might be necessary to provide *ex post* incentives for maintaining or even increasing the economic value of a work).

¹⁵⁶ Market definition in the sense of identifying the markets in which the rights holder is allowed to seek rents differs from the need to refer to a given market in order to assess antitrust harm since the plaintiff’s markets may include uses related to products that are not (close enough) substitutes such as the TV series and the respective trivia book involved in *Castle Rock*. Antitrust law is concerned with the acquisition of market power that may allow the defendant to reduce output, increase prices, exclude competitors or impede innovation. Copyright law, on the other hand, focuses on a different type of harm consisting in the reduction of authorial incentives, which results from encroachments upon plaintiff’s markets. On those differences see Herbert J. Hovenkamp, *Markets in IP and Antitrust*, 100 GEO. L.J. 2133, 2148-49 (2012) and Mark A. Lemley & Mark P. McKenna, *Is Pepsi Really a Substitute for Coke? Market Definition in Antitrust and IP*, 100 GEO. L.J. 2055, 2074-75 (2012). Driven by the need to clarify the doctrine of fair use on the grounds of a robust underlying principle, Judge Posner sought to derive principles for the administration of the fair use standard from the antitrust analysis for identifying a relevant market in *Ty, Inc. v. Publications International*, 292 F.3d 512 (7th Cir. 2002). Adopting an antitrust lens, the opinion suggested that copying that is complementary to the original work, in the same vein that nails are considered complementary to hammers, amounts to fair use because in those instances there is no substitution and, therefore, no market harm. Hence, the publishing of guides about some copyrighted stuffed animal toys called “Beanie Babies” was found to be fair use under this notion. An additional step was required, however, to complete the analogy since copyright could be relied upon to enjoin uses giving rise to derivative works that are not substitutes of the original work. To draw the full analogy Judge Posner suggested that infringement should be affirmed whenever the defendant’s copying substitutes not only for the original work but also for its derivatives. This approach is appealing to some scholars who believe that the market concept is too broadly conceived in the field of copyright law resulting in overbroad exclusive

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Importantly, those identifiable markets serve also as means to define the requisite level of care. A court may rule, for example, that copying is allowed only to the extent a given type of market is not harmed. To the extent copying is restricted to that level the defendant can argue that he has managed to comply with the negligence standard imposed on him.¹⁵⁷

E. Administrating the Multifactorial Test

Any fair use assessment should result from a balancing of the equities manifested in each one of those factors. The proper administration of a multifactorial test requires an assessment of how each individual relevant aspect is capable of affecting the outcome. This must involve a proper correlation of the factors. In *Campbell*, a case involving a rap group recording their own parodic rendition of the song “pretty woman”, the Supreme Court elaborated upon the interrelationships between the four factors.¹⁵⁸

A highly transformative secondary use is less likely to give rise to substitutes for the original or its plausible derivatives.¹⁵⁹ While inquiring upon whether the amount and substantiality of the appropriated material suggests that the secondary use is fair or not under the third factor, the court noted that due consideration must be given to the defendant’s justification that is the social benefit

rights, see Sara K. Stadler, *Relevant Markets for Copyrighted Works*, 34 J. CORP. LAW 1059 (arguing that the scope of copyrights should extend only to cases where there is reasonable interchangeability of creative products); Anna F. Kingsbury, *Market Definition in Intellectual Property Law: Should Intellectual Property Courts Use an Antitrust Approach to Market Definition?* 8 INTELLECTUAL PROPERTY L. REV. 63, 88 (2004). The late Professor Nimmer had elaborated upon the observations of Judge Posner and formulated a pure copyright theory, which is generally known as the “functional test”, see NIMMER, *supra* note __ § 13.05[A][5][b] at 13-211 et seq. His approach is antithetical to the transformative use paradigm in the sense that it sought to re-shift the focus on the fourth factor. The “functional test” asks whether the earlier and the later work share the same function. A comprehensive review of that theory lies beyond the scope of this footnote and this paper as well. While the “functional test” provides a rational explanation for exempting some secondary uses like parodies or may, for instance, elucidate the reason why the publication of a short abstract from a biography did not qualify as fair use in *Harper & Row*, it essentially ends up distorting the fair use analysis. Foreseeable or not, some complementary uses offer attractive licensing opportunities for copyright owners who may decide during the copyright term to exploit them. Rather than categorically excluding secondary uses from plaintiff’s markets it is preferable to have the issues resolved through an actual administration of the standard, which requires a proper balancing of the equities involved. It is in this way that the welfare-maximizing solution will be reached. Concluding on the issue of market definition in IP, it is not necessary, in my view, to resort to antitrust methodologies. Market definition, at least for the purposes of applying the fair use doctrine, could be understood in very loose terms as a process of determining market segments in order to make a decision about whether an identified piece of a bigger pie should go to the copyright owner. It sounds simplistic but it is actually a way of defining a relevant market for identifying the particular harm that copyright laws seek to redress. The idea of adopting a functional approach to market definition is probably what market references in the context of the application of the fair use doctrine and antitrust scrutiny about harm in a given market have. On the need for a functional approach to market definition in antitrust cases see generally, Louis Kaplow, *Why (Ever) Define Markets?*, 124 HARV. L. REV. 437 (2010).

¹⁵⁷ As the statutory list of relevant factors is not exhaustive, courts may consider additional factors other than those explicitly mentioned in paragraph 107 including defendant’s bad faith, see NIMMER, *supra* note __ § 13.05[A][5][b] at 13-206.8 – 13-207. This aspect of fair use analysis mirrors the approach taken by the broad “balancing-test” resorted to by courts concretising a negligence standard, which involves a consideration of the alleged tortfeasor’s moral status or the utility of his conduct to the society and third parties, see generally DOBBS, HAYDEN & BUBLICK *supra* note __ § 160.

¹⁵⁸ *Campbell*, 510 U.S. at 578 et. seq. On the general precedential value and influence of *Campbell* see Pierre N. Leval, *Campbell as Fair Use Blueprint*, 90 WASH. L. REV. 597 (2015).

¹⁵⁹ *Campbell*, 510 U.S. at 591; *Google*, 804 F.3d at 214.

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of its actions, which emerges from the considerations underlying the first factor.¹⁶⁰ As a rule, the extent of permissible copying varies according to the purpose and the character of the use at hand.¹⁶¹ Once the extent of copying has been measured both in quantitative and qualitative terms, judges can also assess the capacity of the secondary use to give rise to an effective market substitute for the original work or to usurp plaintiff's markets for licensed derivatives. The latter observation highlights the interrelationship between the third and the fourth factors.¹⁶²

A proper fair use analysis must draw those dialectical interrelationships between the various equities manifested in the four factors.¹⁶³ Case law is ample of examples where the courts have either tallied the four factors according to their inclinations to favour one of the parties to the dispute or failed to draw the necessary correlation between the equities involved.

In *Sony*,¹⁶⁴ the Supreme Court opined that commercial uses should be presumptively unfair in an attempt to increase the predictability of the fair use analysis but also to secure solid protection for the authorial incentives as one of the aspect relevant to the assessment. The Supreme Court retreated, however, from that position in *Campbell* stressing the importance of correlating the equities emerging from the consideration of the individual factors.¹⁶⁵ Seeking to strengthen their legal position, plaintiffs have unsuccessfully sought to prompt the courts to rely on presumptions such as the one invoked in *William and Wilkins*¹⁶⁶ where a publishing house was not successful in persuading the court that the appropriation of an entire work should never amount to fair use. Even transformativeness itself, which has been elevated to a consideration of prime significance due to the social value of the new use, does not pre-empt the outcome without being considered in correlation with the other factors first.¹⁶⁷

As a true negligence standard meant to be administrated on the basis of a case-by-case analysis, the fair use calculus could not be bound to the chariot wheels of generalised per se rules and a priori presumptions.¹⁶⁸

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

Various aspects of copyright law can be perceived as designed to induce potential plaintiffs to exercise due care so as to minimize the costs of copyright accidents even under a strict liability regime. The risk of accidental infringement, for instance, may be alleviated through notice and

¹⁶⁰ *Campbell*, 510 U.S. at 586-87.

¹⁶¹ *Id.*

¹⁶² *Google*, 804 F.3d at 221.

¹⁶³ *Campbell*, 510 U.S. at 578: "Nor may the four statutory factors be treated in isolation, one from another. All are to be explored, and the results weighed together, in light of the purposes of copyright." See also HOWARD B. ABRAMS, *THE LAW OF COPYRIGHT*, § 15:31 (1991-); *Pacific and Southern Co., Inc. v. Duncan*, 744 F.2d 1490, 1495 (11th Cir. 1984).

¹⁶⁴ *Sony*, 464 U.S. at 449.

¹⁶⁵ *Campbell*, 510 U.S. at 583-85.

¹⁶⁶ *Williams and Wilkins*, 487 F.2d at 1353.

¹⁶⁷ *Kienitz v. Sconnie Nation LLC*, 766 F.3d 756, 758 (7th Cir. 2014).

¹⁶⁸ William F. Patry & Shira Perlmutter, *Fair Use Misconstrued: Profit, Presumptions, and Parody*, 11 CARDOZO ARTS & ENT. L.J. 667, 708 (1993). Cf. Lloyd L. Weinreb, *Fair's Fair: A Comment on the Fair Use Doctrine*, 103 HARV. L. REV., 1137, 1138 (1990)(noting that what amounts to fair use must be deducted from concrete cases).

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registration.¹⁶⁹ Albeit not compulsory, the observation of those formalities is strongly encouraged by the statute.¹⁷⁰ Copyright owners could further reduce the risk of accidental infringement by disseminating information about the copyright status of their works.¹⁷¹ It seems that even under a strict liability regime copyright owners would have an incentive to exercise due care to avoid infringement whenever they reckon that avoiding litigation is preferable despite the availability of strong compensatory remedies.¹⁷² And there is always the option to control the access to copyrighted works through the introduction of permission systems or the adoption of digital rights management to eschew infringement.

Under the fourth factor, the plaintiff will as a rule prevail if the secondary use encroaches upon already developed markets. Where the plaintiff has not created a market the likelihood of a fair use finding increases. Therefore, the rights holder can minimize the cost of the accident by developing the derivative market before it becomes occupied by potential defendants.¹⁷³ Accident costs will be reduced because in the very same market it will be possible both for the plaintiff to enjoy economic benefits and for third parties to engage in welfare enhancing secondary uses to the extent that the fair use defence allows it. Since the requisite level of care refers to the development of a given market and therefore it is known to the court, the assessment of the fourth factor would under such circumstances function as revealing a negligence standard with which the defendant failed to comply and third parties in a similar position have to consider.

¹⁶⁹ Bracha and Goold, *supra* note __ at 964, argue that in cases of accidental infringement the observation of formalities constitutes a measure that defendants may take to minimize the risk of copyright accidents. In their view, the tort of copyright infringement should be restructured to require plaintiffs to establish fault in action as an element of their *prima facie* case. That would indeed render copyright infringement a negligence tort. In the meantime, they argue, the doctrine of fair use could accommodate the concerns associated with accidental copyright infringement by exculpating those defendants who have exercised due care. See also, Ruth Okediji, *Givers, Takers, and Other Kinds of Users: A Fair Use Doctrine for Cyberspace*, 53 FLA. L. REV. 107, 155-56 (2001)(noting that formalities, along with other requirements for copyright protection such as fixation, facilitate access-welfare objectives).

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

¹⁷¹ Bracha and Goold, *supra* note __ at 963.

¹⁷² *Id.* at 964.

¹⁷³ Developing a market that seemed to be simply potential at the moment of creation reduces the cost or the risk of an accident but does not eliminate it. The copyright owner may not without more pre-empt exploitative uses within a market simply because he has managed to develop that market. *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605 (2nd Cir. 2006) illustrates that point. Defendant's book "Grateful Dead: The Illustrated Trip", which takes the reader through the history of the well celebrated rock band, contained thumbnail images of copyrighted concert posters. After finding that the secondary use was transformative, the Second Circuit noted that the fact that the plaintiff had already been engaging into licensing its images for use in book publications did not tilt the balance of equities in its favour. Quoting *Castle Rock*, the court further observed that "[i]n a case [of transformative secondary use], a copyright holder cannot prevent others from entering fair use markets merely "by developing or licensing a market for parody, news reporting, educational or other transformative uses of its own creative work."" Licensing behaviour should not be determinative without more. Before giving effect to current licensing practices, we should consider whether the market emerged as a result of excessive risk aversion causing the defendants to request a license in respect of a use that is otherwise fair. On this point see, Wendy J. Cordon, *The 'Why' of Markets: Fair Use and Circularity*, 116 THE YALE LAW JOURNAL POCKET PART 358 (2007)(refining the analysis of James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882 (2007) who argued that markets characterized by excessive risk aversion should not be relevant to the fair use analysis).

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Sometimes, a market may not exist because of prohibitive transaction costs.¹⁷⁴ Quite often, such market failures would be remedied by centrally administrated licensing schemes or some other form of innovation. Where the court possesses the information necessary for remedying the market failure it would make a relevant reference in the form of stressing what the plaintiff has failed to do thereby essentially giving notice of his failure to comply with a negligence standard. Where such information is unavailable courts should generally refrain from affirming fair use without first examining the possibility of their ruling interfering with the development of licensing schemes in the marketplace. In any event, the plaintiff would have an incentive to exercise due care since he is the ultimate bearer of the accident.¹⁷⁵ Hence, plaintiff's incentive would be either to remedy the market failure himself or to create sufficient financial incentives for others to do so. Such potential losses of copyright owners would in all likelihood induce third parties to facilitate the emergence of a market on their own initiative. Rights holders may take other precautionary measures to control the access to their works such as the adoption of permission systems or digital rights management.

Indirect appropriability is another means for a copyright owner confronted with new copying technologies to exercise care towards his economic interests by charging higher prices for the original copies of the works that will eventually form the basis for further unauthorized copying.¹⁷⁶ Journal photocopying is an example thereof.¹⁷⁷ Copyright owners can appropriate the value of unauthorized copying taking place within libraries or research organisations if they charge such institutions with subscription fees that are higher than those applicable to individuals. When assessing fair use, courts consider the options plaintiffs have to minimize the expected costs of an accident and, as we shall see, the result of the fair use analysis is meant to induce the copyright owner to take those precaution that are cost-efficient.

V. Case Law Analysis

A. Institutional photocopying

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

In *Williams and Wilkins v. United States*,¹⁷⁸ a publisher of medical journals and books sued the government alleging infringement of its copyrights through unauthorized photocopies made by the National Institute of Health (NIH) and the National Library of Medicine (NLM).

Before getting into a formal analysis of the four factors, the Court placed emphasis on the precautionary measures that defendants carried through to prevent the infliction of harm to the copyright owner's interests.¹⁷⁹ NIH's policy accommodated photocopying requests limited to a single

¹⁷⁴ See Gordon, *supra* note __.

¹⁷⁵ This is another application of the general principle that a rule of negligence would be efficient even without a defense of contributory negligence, see Polinsky, *supra* note __ at 50.

¹⁷⁶ Liebowitz, *supra* note __ at 6.

¹⁷⁷ See generally Stan J. Liebowitz, *Copying and Indirect Appropriability: Photocopying of Journals*, 93 JPE 945 (1985).

¹⁷⁸ *Williams & Wilkins Co. v. U. S.*, 487 F.2d 1345 (Ct. Cl. 1973).

¹⁷⁹ *Id.* at 1348-49 and 1354.

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article from a journal issue. No more than 50 pages could be photocopied. NLM, a virtual treasury of world's medical literature, took up the role of a caterer to other libraries and intellectually-oriented institutions through an interlibrary loan scheme. Loans would often take the form of gratis photoduplicates which the user was not obliged to return. Again, each request was limited to one photocopy of a particular journal article. Individual users could not place more than 20 requests per month. In the case of institutions, the number of permissible requests rose to 30. NLM would reject requests to copy more than one article per journal issue or more than three articles per journal volume. Any copies made bore a note clarifying that they were made in lieu of lending the original work. As a general rule, such loan requests could not be placed in respect to articles featured in some specific journals, which were deemed to be widely available because they were recently published and formed part of collections maintained in regional medical libraries. The policies of both institutions were generous enough to recognize some exceptions to those general rules without substantially altering the level of photocopying activity resulting from the libraries' practices. Finally, those researchers who obtained copies of the journal articles were not likely to create further copies with a view to making profit from their sale.

The court's trepidation in affirming fair use reflected concerns about ensuing hindrances to medical and scientific research in case the plaintiff was successful in his claim.¹⁸⁰ Researchers would have to cut down their reading or engage in time consuming hassles such as extensive note taking in a remote library to collect the materials they need to study in the convenience of their working place. What tipped the balance of equities involved in favour of the defendant was the fact that the plaintiff was not able to substantiate actual harm suffered as a result of the defendant dealing with its works.¹⁸¹ Evidence of subscriptions cancelled due to the availability of photocopying was inconsequential. In fact, the record showed a substantial increase in annual subscription sales and do did also plaintiff's annual taxable income. Plaintiff's business had actually been growing faster than the country's GDP. Apart from that, any evidence of infringing use concerned no more than a small part of plaintiff's business. In the absence of actual harm, the court had no reservation about giving the prevalence to the public interest of promoting medical research.¹⁸²

Although the use of the original works did interfere with the internalising function of plaintiff's copyrights since some licensing opportunities had been foregone, the court was adamant that such reduction of the benefits included in the "incentives package" would be exceedingly outweighed by the social gains in augmented medical research accruing from the secondary use. Hence, despite the decrease in benefits that could be internalized in favor of the right holder the defendant is deemed to have exercised due care.¹⁸³

While determining the requisite level of care the court took into account the defendants' nature as public non-profit institutions devoted to the dissemination of medical knowledge.¹⁸⁴ The defendants

¹⁸⁰ *Id.* at 1356-57.

¹⁸¹ *Id.* at 1359.

¹⁸² *Id.*

¹⁸³ The decision of the Court of Claims has been criticized on the grounds that it did not take into account the cumulative effect on plaintiff's markets emerging from copying carried out "by any and all libraries and similar institutions." See NIMMER, *supra* note __ § 13.05[E][4][c] at 13-252 – 13-253. It seems, however, as our analysis of *Williams and Wilkins* above suggests, that the Court of Claims practically imposed a personalised standard of care considering the nature and the function of the specific libraries involved, plaintiff's business model as well as the contemporary circumstances surrounding funded medical research. Narrowing down that precedent would thus require a very detailed identification of the distinguishing facts.

¹⁸⁴ *Id.* at 1354.

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were therefore entities particularly capable of increasing the levels of the desired activity towards the optimal level. In addition, the fact that the research results featuring in plaintiff's journals had been funded by the state were taken to mean that its copyright should allow for extra "breathing space", at least as far as those particular defendants were concerned, under the general principle that any attempt to prescribe the exclusionary effect of copyright should reflect an awareness that there is no single work of authorship that is not somehow elaborating upon pre-existing creative efforts. Equally, the court took into account that the authors of the journal articles were not remunerated and the medical societies collaborating to the publishing venture did not pose exorbitant financial demands for their share in the profits.¹⁸⁵ Seemingly, the court was conscious of the need to personalise the standard of liability.¹⁸⁶

One could argue that social welfare would be possibly maximized under a scheme where the libraries would have to pay reasonable licensing fees. That would top-up the incentives package without reducing the levels of the desired activity. Workable options included a compulsory licensing regime relying on a clearinghouse collective system or a viable licensing scheme introduced by the plaintiffs.¹⁸⁷ The first solution suggests that legislative intervention is necessary because tort law obligations are not capable of inducing both parties to exercise due care. The second solution essentially leaves the plaintiff to bear the costs of the accident himself envisaging that he would exercise due care since otherwise he would be deprived of licensing fees that the secondary user would be willing to pay.¹⁸⁸

The court in *Williams and Wilkins v. United States* did not proceed to implement any of those suggestions succumbing to the legislative authority after acknowledging that it did not possess the information required for setting the level of optimal care for the plaintiff.¹⁸⁹ Notably, the negligence standard imposed on the libraries does only induce optimal levels of activity in respect to institutional photocopying that augments medical research. The same standard promotes also the

¹⁸⁵ *Williams and Wilkins*, 487 F.2d at 1359.

¹⁸⁶ This is also evident in the concluding remarks of the opinion where the court enunciated its ruling being applicable to the specific set of facts it addressed without exonerating from liability other instances of photocopying. Exactly on that score, one could distinguish other cases where photocopying is carried out by other categories of defendants. In *Princeton University Press v. Michigan Document Services, Inc.*, 99 F.3d 1381 (6th Cir. 1996), for instance, it was held that photocopying of course materials by a commercial copyshop did not amount to fair use. The copying done by the defendants was deemed to be excessive after consideration of "its systematic and premeditated character, its magnitude, its anthological content, and its commercial motivation". While it remains unresolved whether the outcome would be different if copying is carried out by a student or a non-profit educational institution, it seems as if those defendants will eventually be subjected to a standard of care that is different than the one imposed on commercial copyshops. If we consider the anthological compilation as a dimension of care, for instance, it may well be that professors will be granted with a more generous leeway. In *Cambridge University Press v. Patton*, 769 F.3d 1232, 1267 (11th Cir. 2014), the court found that the first factor favoured the defendant professors who had been engaging in a non-profit educational use which should be exempted from liability "under certain circumstances." The court did not proceed to deliver a complete fair use analysis because the case was remanded but it does indicate that personalised duties of care

¹⁸⁷ *Williams and Wilkins*, 487 F.2d at 1360.

¹⁸⁸ Cf. NIMMER, *supra* note __ § 13.05[E][4][e] at 13-259 (arguing that intermediate remedies would be helpful in such cases). Marc R. K. Burgeroth, *Copyright –Photocopying as Fair Use—Williams & Wilkins Co. v. United States*, 16 B.C.L. Rev. 141, 149 (1974)(taking the opposite view by arguing that the doctrine of fair use compels courts to balance the equities involved in the disputes they have to adjudicate).

¹⁸⁹ *Williams and Wilkins*, 487 F.2d at 1360-61.

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optimal use, and therefore the financing of, reprographic technology. Thus, these two separate activities could be regulated through the same standard of care in that instance.

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

In *American Geophysical Union v. Texaco*¹⁹⁰ the Second Circuit ruled that the reproduction of journal articles taking place at defendant's research department did not amount to fair use since there was a convenient means for remunerating the copyright owner.¹⁹¹ Evading the CCC system for paying royalties can be paralleled to a failure to exercise due care. Apparently, the cost of the accident is minimized when both parties are induced to exercise care through negligence standards.

Texaco is one of those cases that was rightfully decided with the court applying in practice a correct negligence standard. Nevertheless, the technical analysis of the opinion does not really reflect an assessment of the requisite level of care resulting from a balancing of the equities involved. Rather, the analysis of the court seems to concentrate on which party could win the more arguments associated with the four factors. *Texaco* slumped to a 3-1 defeat.¹⁹²

As regards the first factor and the nature of the secondary use, the court surmised that *Texaco* narrowly lost out on the "non-profit" argument holding the secondary use to be an "intermediate" one as the defendant's profits did not directly stem from the copies of the relevant scientific papers.¹⁹³ Assessing the character of the use, the court observed that *Texaco* had been engaging in archival copying.¹⁹⁴ The copies had not been made with the aim of facilitating any specific research project but were meant to facilitate research efforts within the enterprise ensuring that no hold ups transpire because more scientists need to consult the same source. On those terms *Williams & Wilkins v. United States* should be distinguished. Since photocopying "merely transform[ed] the material object embodying the intangible article that is the copyrighted original work", the secondary use was deemed non-transformative.¹⁹⁵ Consequently, the first factor favored the plaintiffs in the view of the court.

While the court was cognizant of the value derived from a more usable format, it did not consider that this should carry any weight in the fair use calculus. Otherwise, the court suggested, any photocopying could potentially be justified as providing for a more convenient format for enjoying an earlier work of authorship.¹⁹⁶ In that regard, the court's analysis failed to put the benefit to social welfare accruing from the secondary use and then assess whether defendant's activities had been excessive in the sense of the latter not having exercised due care towards the interests of the copyright owner as these manifest themselves in the fourth factor. No attempt to correlate the first and the fourth factor was made by the court apart from stating that *Texaco* could not rely on the

¹⁹⁰ *American Geophysical Union v. Texaco*, 60 F.3d 913 (2d Cir. 1994).

¹⁹¹ *Id.* at 931-32.

¹⁹² *Id.*

¹⁹³ *Id.* at 921.

¹⁹⁴ *Id.* at 919-20.

¹⁹⁵ *Id.* at 923.

¹⁹⁶ *Id.* at 924.

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argument that its use was customary since the analysis of the fourth factor suggested that the market participants would now expect the secondary use to be licensed.¹⁹⁷ Texaco won the second factor as the infringed work was deemed to be of factual nature.¹⁹⁸ Even if the court had ruled that the first factor marginally favors the defendant, which would have levelled the score 2-2, the outcome of the fair use analysis would not have been different after the equities involved were weighted against each other. Only the third factor, which favored the plaintiffs because the plaintiffs had copied the totality of individual works of authorship, was correlated to the first factor as confirming, in the view of the court, the non-transformative character and the archival purpose of the copies made.¹⁹⁹ Although the court reiterated the principle that the third factor serves as a proxy for determining whether harm to plaintiff's markets is imminent and for assessing whether the amount of copying has been proportional to the welfare enhancing purpose of the new use,²⁰⁰ none of those correlations was properly advanced. A proper correlation between the first and the third factor did not materialize as the court did not put the social benefit accrued from "archival copies" within corporate research departments in perspective. For the rest, the third factor was simply counted as favoring the publishers because Texaco had copied entire works.²⁰¹

After acknowledging harm to the "workable [licensing] market" for institutional users the court concluded its "aggregate assessment" that "three of the four statutory factors, including the important first and the fourth factors, favor the publishers."²⁰² We recognize that the statutory factors provide a nonexclusive guide to analysis [...] but to whatever extent more generalized equitable considerations are relevant, we are in agreement with the District Court's analysis of them. [...] We therefore agree with the District Court's conclusion that Texaco's photocopying [...] was not fair use."²⁰³

In any event, Texaco stands for the proposition that the scope of the copyright owner's rights would extend to all those newly created markets, which the rights holder had not been able to exploit in the past due to prohibitive transaction costs that are no longer present, provided, of course, that the overall fair use analysis dictates a conclusion of the secondary use being unfair. But the plaintiff can only prevail if he has exercised due care that is if he has created the market for that secondary use. Apparently, the negligence standard imposed generates incentives for third parties to come up with innovative licensing schemes or technologies drastically reducing transaction costs for which the copyright owner is willing to pay.²⁰⁴ In many such instances copyright owners would have an incentive to finance R&D efforts that facilitate the emergence of such markets. Again, the negligence standard for the plaintiff is also apt for regulating the activity levels for third-party innovation.

Concluding its aggregate assessment of the four factors, the court dealt with the reservations expressed by dissenting Judge Jacob who reckoned that the majority opinion "has ended fair-use photocopying with respect to a large population of journals."²⁰⁵ In its reply the court stressed that its

¹⁹⁷ *Id.*

¹⁹⁸ *Id.* at 925.

¹⁹⁹ *Id.* at 926.

²⁰⁰ *Id.*

²⁰¹ *Id.*

²⁰² *Id.* at 929-32.

²⁰³ *Id.* at 931.

²⁰⁴ Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CAL. L. REV. 1293, 1298-300 (1996)(showing how market solutions would normally emerge to address such market failures).

²⁰⁵ *American Geophysical Union*, 60 F.3d at 931.

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ruling was confined to the institutional, systematic, and archival copying of the specific journal articles covered by the copyrights in suit, which took place in a specific market context where viable licensing schemes were already in place.²⁰⁶ Within that statement the notion is lurking that fair use creates personalized standards of negligence, which will nevertheless develop in broader negligence-based rules covering all clearly analogous cases.²⁰⁷

B. Comment and Criticism

The preeminent Nashville music publisher Acuff-Rose music, who owned the copyright in the song “Oh, pretty woman” written by Roy Orbison and Bill Dees, filed suit against a controversial and provocative rap-group from Miami, the 2 Live Crew, and their record company, Luke Skywalker Records, after they released a hip-hop parody based on that song. Before that, Acuff-Rose had refused defendant’s offer to authorize the parody in exchange for a fee and a proper attribution of the copyright owner as well as of the songwriters. Instead of the original romantic references to a pretty woman spotted walking down the street, the parody told the more pejorative tale of a “big hairy woman.” The case eventually reached the Supreme Court, which took the opportunity to clarify the application of the fair use doctrine to parodies.²⁰⁸

Falling back on dictionary definitions of parody,²⁰⁹ the Court first sought to ascertain in general terms the type of activity concerned. Under a lexical definition, parody constitutes a “literary or artistic work that imitates the characteristic style of an author or a work for comic effect or ridicule.” In similar vein parody could be defined as a “composition in prose or verse in which the characteristic turns of thought and phrase in an author or class of authors are imitated in such a way as to make them appear ridiculous.” In legal terms, parodic activity entails the appropriation of material from a copyrighted work with a view of creating a new work that comments upon the prior work. Parodies enhance social welfare both by generating a new expressive work and “by shedding light on an earlier work.”²¹⁰ While assessing the nature of defendant’s song, the Court noted that the degrading taunts, the bawdy demand for sex and the sigh of relief from paternal responsibility conveyed by its lyrics could be taken as a comment shedding light on the naivete of the earlier work and its era. 2 Live Crew’s parody could be perceived as a rejection of its sentiment and ignorance of the realities of street life. The defendant has therefore indeed been engaging in socially desirable parodic activity.²¹¹ In essence, the court indicated in its judgement that commercial parodies have an equally legitimate claim to fair use since the social benefit they generate is no less than that involved in purely expressive parodies. In fact, such economic benefit may facilitate the parodists’ efforts to disseminate a given critical commentary or support further parodic activities.

Inasmuch as the parodist is permitted to capitalize upon the elements borrowed from the earlier work, the copyright owner has to forego some of the benefits that his exclusive right would have otherwise internalized since the social benefits of parodic expression outweigh any potential losses in authorial incentives that might result from the trimming of the incentives package. A licensing market for parodic derivatives should not count as a copyright’s owner “potential market” for the purposes of assessing fair use under the fourth factor since the rights holder is normally inclined to

²⁰⁶ *Id.* at 931-32.

²⁰⁷ The same principles should apply to photocopying occurring in the course of a law firm’s operation, see *Abrams*, *supra* note __ § 15:116.

²⁰⁸ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

²⁰⁹ *Id.* at 580.

²¹⁰ *Id.* at 580.

²¹¹ *Id.* at 583.

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suppress critical reviews of his works, as Justice Souter explained.²¹² Otherwise, the levels of parodic activity would be lower than the optimum.

In respect to the level of care, parodists may freely appropriate copyrighted material regardless of its creative or factual nature up to the extent that their expressive purpose requires them to “conjure up” the original.²¹³ Provided that such due care is exercised third parties may maximize their levels of parodic activity. Activity levels would not be considered as excessive even when a parody turns out to be so successful that demand for the original work eventually subsides because the consuming public no longer appreciates it anymore. Such harm is not cognizable under the Copyright Act.²¹⁴ A duty of care towards the interests of the copyright owner is likely to arise when the parodic work develops into a substitute for the original.²¹⁵ Parody, just like other forms of artistic commentary, does not provide third parties with a “Carte blanche” to exploit the creative effort of others without paying compensation. Justice Kennedy concurred stressing that very point by observing that “[i]f we allow any weak transformation to qualify as parody, [...] we weaken the protection of copyright. And underprotection of copyright disserves the goals of copyright just as much as overprotection, by reducing the financial incentive to create.”²¹⁶

On remand, the lower court was supposed to examine whether plaintiff’s markets had been indeed harmed but the case was eventually settled. By all means, *Campbell* suggests that even when the secondary use amounts to artistic expression or some other form of commentary, it is important to avoid the “parodic or satiric appropriation” of earlier works.²¹⁷

Satire is distinguished from parody for it does not target the original work. It rather uses a pre-existing work as a means to comment upon something or someone else. In *Dr. Seuss Enterprises v. Penguin Books U.S.A., Inc.*²¹⁸ concerned a children’s book titled “The Cat in the Hat”, which was written by Theodor Geisel under the pseudonym of Dr. Seuss. The main character of the book is a tall and mischievous anthropomorphic cat, which wears a tall hat with red and white stripes and bow tie while carrying an umbrella. Out of the blue, the Cat enters the lives of Sally and her unnamed brother to entertain them with its tricks. This book was one of a series aiming at enhancing elementary school literacy. Defendant’s book, “The Cat NOT in the Hat! A Parody by Dr. Juice”, imitated the punchy style of the original work using rhymes and simple words to satirize O.J. Simpson’s perspective as a person indicted for his wife’s murder. Its cover features O.J. Simpson

²¹² *Id.* at 592-93.

²¹³ *Id.* at 588-89.

²¹⁴ *Id.* at 591-92.

²¹⁵ Richard A. Posner, *When is Parody Fair Use?*, 21 J. LEGAL STUD. 67, 71-2 (1992); Beth Warnken Van Hecke, *But Seriously, Folks: Toward a Coherent Standard of Parody as Fair Use*, 77 MINN. L. REV. 465 (1992)(arguing that assessing the potential substitution effect of a parody would allow for a more balanced fair use analysis).

²¹⁶ *Campbell*, 510 U.S. at 599.

²¹⁷ Cf. Robert P. Merges, *Are You Making Fun of Me: Notes on Market Failure and the Parody Defense in Copyright*, 21 AIPLA Q. J. 305, 312 (1993)(arguing that proper fair use assessment should inquire upon whether “a reasonable market transaction for the right to parody could be envisioned”). For the opposite view see Harriette K. Dorsen, *Satiric Appropriation and the Law of Libel, Trademark, and Copyright: Remedies without Wrongs*, 65 B.U. L. Rev. 923 (1985). See also NIMMER, *supra* note __ § 13.05[C][2][e] at 13-230.1-230.5 (noting that the remand in *Campbell* should be read as an instruction by the court to thoroughly balance the equities involved in parody cases including copyright owner’s rent seeking interests in possible derivative markets. As he suggests, parodists only won a “qualified victory” in *Campbell*); Anastasia P. Winslow, *Rapping on a Revolving Door: An Economic Analysis of Parody and Campbell v. Acuff-Rose Music, Inc.*, 69 S. CAL. L. REV. 767 (1996)(recognizing that the likelihood of a voluntary exchange is relevant to the assessment).

²¹⁸ *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394 (9th Cir. 1997).

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wearing the distinctive hat of Geisel's Cat and looking apathetic while holding a pair of blood-dripping football gloves.

Satire does not target the original work for the sake of adding to it new expression or meaning but rather appropriates copyrighted expression to lampoon an issue of social, political or economic life. Compared with parody, satire has a weaker claim to fair use, as it does not require the same degree of transformative contribution.²¹⁹ Copyright owners are less inclined to suppress the emergence of a licensing market for satiric products while third parties are not reliant on a given copyrighted work to make a satirical publication. Balancing the equities involved, the Court reached a conclusion based on a correlation of the first and the fourth factor that defendant's use was not fair because of its commercial character from which the court inferred that market substitution, and therefore market harm, was imminent.²²⁰ In effect, the decision creates a negligence standard, which permits parody but imposes a duty on third parties to exercise care so as to avoid hampering authorial incentives by seeking to derive profit through the satiric appropriation of copyrighted works.

A line of demarcation between parody and satire would not always be easy to draw. At any rate, the decision of Ninth Circuit in *Dr. Seuss Enterprises v. Penguin Books U.S.A.* is in line with the proposition put forward by the Supreme Court in *Campbell* namely that a weak transformation might guise an attempt of "satiric appropriation."²²¹

Some of those who have a bone to pick with a copyrighted work because they feel in some way offended by its content would be on the lookout for ways of expressing disagreement with its content. In respect to books or movies, for instance, a particularly effective means for achieving this sanctioned aim is to recast the story told in the original work to be reflective of their own perspective. Critical recasts are rather unlikely to develop market substitution effects in relation to the original work. Hence, the amount and/or substantiality of the elements taken from the prior work constitute the most important parameters for setting the standard of due care. When applying the fair use doctrine, the courts have consistently refrained from imposing duties of care that require third parties to copy both in quantitative and qualitative terms less than what is necessary for taking a hand in such transformative critique.

In *Suntrust Bank v. Houghton Mifflin Co.*,²²² the allegedly infringing novel, *The Wind Done Gone*, retold the story of *Gone With the Wind* from the perspective of a black slave. Defendants' work hinged on the original's story line and featured verbatim some of its dialogues. While reviewing the third factor, the Eleventh Circuit noted that there was no principle confining the copying of works protected by copyright for criticism purposes to the elements required for "conjuring up" the original. Equally, fair use analysis could not give rise to a duty for parodists not to appropriate some central part of a given work that could be perceived as its "heart."²²³

Other sorts of critical commentary would be exempted from liability even when the defendant is iteratively copying elements from several works of the same author in order to write a critical biography of the latter. Aggrieved at the experiences allegedly sustained as a member of the Church of Scientology, Jonathan Caven-Atack offered his own condemnatory views on the life and times of

²¹⁹ *Campbell*, 510 U.S. at 580-81.

²²⁰ *Dr. Seuss Enterprises*, 109 F.3d at 1403.

²²¹ *Campbell*, 510 U.S. at 599.

²²² *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001).

²²³ *Id.* at 1273-74.

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the late L. Ron Hubbard, the man who founded that religious organization.²²⁴ His intention was to show the author's claimed true colors as a "paranoid, vindictive, power hungry, petty sadist and profoundly disturbed man" but also to expose Scientology as a "dangerous cult."²²⁵ For this purpose, Caven-Attack had extensively borrowed materials from Hubbard's earlier works, collectively 121 passages from 48 copyrighted resources, to write his book "A Piece of Blue Sky: Scientology, Dianetics and L. Ron Hubbard Exposed." Nevertheless, his productive use of the copyrighted material was deemed fair because the amount copied was proportional to the purpose of authoring a critical biography.²²⁶

C. News Reporting

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

One important difference is that in many instances the news reporter cannot dispense with verbatim copying an earlier work when the latter simply constitutes the information that should be disseminated. *Swatch Group v. Bloomberg* provides us with an illustrative example.²²⁷ A newshound working for the defendant managed to sneak into a teleconference during which plaintiff's officials discussed with various financial analysts the earnings report that the Swatch Group had submitted to the Swiss exchange in compliance with their obligations pursuant to Swiss securities law. Contrary to the directive provided to the participants insisting on the call not being recorded for publication or broadcast, Bloomberg's employee managed to obtain a recording of it. When the defendant made its recording available to the subscribers of "Bloomberg Professional" the plaintiff filed suit for infringement of the copyright in the recording of the teleconference that a provider of audio-conferencing services prepared for them in the meantime at their request. Reaching the point where defendant's claim of fair use had to be assessed, the Second Circuit noted that in spite of the secondary use being commercial and non-transformative the broader public interest in the timely access to accurate business and financial news by investors should be given prominence.²²⁸

For the same reason, the court did not consider defendant's bad faith manifested in the use of "clandestine methods" to elicit the relevant data.²²⁹ Inducing the optimal activity levels for those collecting information that is valuable to the public presupposes some degree of tolerance towards practices a saint would consider controversial. Of course, the lack of a competitive relationship between the parties to the dispute and the absence of any intent on the plaintiff's behalf to commercially exploit its recording co-determined the outcome in *Swatch Group v. Bloomberg*.²³⁰

²²⁴ *New Era Publications Intern., ApS v. Carol Pub. Group*, 904 F.2d 152 (2nd Cir. 1990).

²²⁵ *Id.* at 154.

²²⁶ *Id.* at 158-59.

²²⁷ *Swatch Group Management Services Ltd. v. Bloomberg L.P.*, 742 F.3d 17 (2nd Cir. 2014).

²²⁸ *Id.* at 28-9.

²²⁹ *Id.* at 26-7.

²³⁰ *Id.* at 27-8.

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

The two copyrighted videos created by LANS appeared under a license in NBC's "Today show." Defendants, who had a news supply agreement with NBC News Overseas and were therefore provided with a copy of the show, made their own videotape on the incident using a small portion of the earlier works, which they then transmitted to their subscribers via satellite in Europe and Africa. LANS sought to recover damages attributed to those domestic acts of infringement that gave way to the commercial exploitation of the earlier work abroad.²³¹ Here, the turning point for negating fair use was the substantiality of the part copied by the defendant, which was enough in qualitative terms to allow for the usurpation of the market for the original.²³² The defendants had appropriated the "heart" of LANS's videos, the parts that really mattered. For sure, the non-transformative and commercial nature of the secondary use spoke in favor of the defendant as well.²³³ It seems, though, that whenever the courts are assessing whether the defendant has exercised due care in that market context the most important aspect to consider is the interference with plaintiff's core-licensing markets by appropriating copyrighted material of such quality or quantity that those markets are actually harmed.²³⁴

The judicial treatment of news reporting either under copyright or under unfair competition laws lay particular emphasis on the licensing culture pervasive in this industry, which involves tacit agreements between market players to cover the cost of reporting through the sharing of news gathered.²³⁵ Judges would often resort to custom when lacking the information necessary for setting optimal negligence standards.

Essentially the same standard of care was applied some years later when Courtroom Television Networks ("Court TV") plucked a nine-second part of LANS's videos where Damien Williams is depicted throwing a brick on Reginald Denny's head and incorporated it in the teaser spots as well as the introductory montage for its show "Prime Time Justice."²³⁶ Defendants were now covering the trial of Denny's assaulters. There is a temporal dimension to the duties of care owed to news purveyors since news is normally only saleable within the narrow time lag between the moment a journalist discovers an issue and the point where the relevant information is disseminated.

²³¹ Los Angeles News Service v. KCAL-TV Channel 9, 108 F.3d 1119 (9th Cir. 1997).

²³² *Id.* at 1122.

²³³ *Id.* at 1121-22.

²³⁴ *Id.* at 1122-23. News clipping services have been held liable for infringing earlier copyrights by selling to their customers copies of expressive content reporting news despite the transformative nature of the secondary use involved since those defendants clearly interfere with markets where news gatherers are supposed to seek rents. Southern Co., Inc. v. Duncan, 744 F.2d 1490, 1495 (11th Cir. 1984)(denying fair use on the grounds of the secondary use being of unproductive nature and despite the fact that the plaintiff had not been marketing its news broadcasts in the meantime); Associated Press v. Meltwater U.S. Holdings, Inc., 931 F. Supp. 2d 537 (S.D. N.Y. 2013)(rejecting an analogy between crawlers extracting and downloading content from news websites but holding that such use entails a transformative purpose).

²³⁵ *Cf.* International News Service v. Associated Press, 248 U.S. 215, 235-36 (1918).

²³⁶ Los Angeles News Service v. CBS Broadcasting, Inc., 305 F.3d 924 (9th Cir. 2002).

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Moreover, the parties to the dispute were not competing in the delivery of “hot news” of the same sort. Therefore, defendants’ dealing with the earlier work was not likely to usurp the demand for LANS’s copyrighted videos as a historical documentation of the 1992 events.²³⁷

As regards the third factor, the court found the amount taken to be substantial, for it comprised the most recognizable frames of the video, but nevertheless quite small.²³⁸ LANS could not persuasively argue that the defendants had appropriated his works’ “heart” because in the previous litigation against Reuters it had identified a part accounting forty seconds as being the “core” of the earlier works.²³⁹ Court TV argued that it only took what was necessary for its intended use namely to effectively cover the Williams and Watson trial and also to promote their program to potential viewers. Weighting the brevity of the portion taken against its significance”, the court concluded that the third factor appeared neutral.²⁴⁰ Hence, the defendant didn’t poach enough material from the earlier work to harm LANS’s core-market for the video footage as historical artefact or to usurp the demand for its rebounded newsworthiness.

The Ninth Circuit examined, as it was legally obliged to do so, the other factors as well. It turned out that the second factor also favored fair use.²⁴¹ Even if one recognized some creative input in the recording of the videos it remained that the earlier works were of factual and informational nature. To some extent the secondary use was transformative or at least more transformative than that of the defendants in *Reuters* since Court TV edited the earlier works and placed them into a new creative context within its show’s introductory video which also served the different purpose of promoting that TV program.²⁴² On the other hand, the use of LANS’s works in the teaser videos was obviously less transformative.²⁴³ Defendant’s use and was largely commercial.²⁴⁴ It was observed that the more transformative of the two uses was also the one being more intensively driven by commercial motivation.²⁴⁵ Transformativeness and commercialism operated as cohesive forces cancelling each other out for the purposes of fair use analysis prompting the court to rule that the first factor weighted only weakly in favor of fair use.²⁴⁶ With third factor being neutral and the rest of the factors favoring the defendant, the court had no reservation whatsoever to accept that the secondary use was fair. The opinion drew the various correlations between the fair use variables.²⁴⁷

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

²³⁷ *Id.* at 941.

²³⁸ *Id.* at 940.

²³⁹ *Id.* at 940-41.

²⁴⁰ *Id.* at 941.

²⁴¹ *Id.* at 940.

²⁴² *Id.* at 938.

²⁴³ *Id.*

²⁴⁴ *Id.* at 939.

²⁴⁵ *Id.* at 939-40.

²⁴⁶ *Id.* at 940.

²⁴⁷ *Id.* at 942.

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Shortly after Joyce Giraud won the title of “Miss Puerto Rico Universe”, a local television channel showed old pictures of her taken by photographer Sixto Núñez. A controversy arose as to whether the photos were appropriate for a lady bearing such title since the young model posed naked or nearly naked for at least one of those photos. El Vocero, the Puerto Rican newspaper that published those photos, was sued by Núñez for copyright infringement.

Turning to evaluate the fair use defence, the court found that the secondary use was commercially motivated to a large extent as the newspaper put the photos on the front page to raise interest in the product.²⁴⁸ At the same time, defendant’s dealing with the earlier work was informative transforming them so as to obtain a further purpose not envisaged by their author. In fact, the newspaper satisfied the demand of the relevant public having a genuine interest in the competition for information about the titleholder’s personality.²⁴⁹ Even though El Vocero copied entire earlier works, this was still proportional to the informational purpose of the secondary use.²⁵⁰ There was no way of effectively covering the controversy other than showing the complete photos that had fuelled the debate. This led the court to the conclusion that the third factor was not particularly relevant to the case at hand.²⁵¹ Furthermore, the court was convinced that the newspaper did not artificially create a “news story” to appropriate the copyrighted photos for commercial purposes.²⁵² Rather, it genuinely sought to feed the public with the type of news it was eager to consume.

Defendant’s good faith was evident.²⁵³ Those lawfully acquired photos had been properly attributed to their author. Evidence did not suggest that El Vocero had any intention of competing with Núñez or preventing him from exercising his right of first publication as the earlier works had already featured on TV shows. The plaintiff was not able to cast any doubt on the truthfulness of defendant’s allegation that the photos were published in the honest belief that anyone could freely circulate them after the fuss made about the photo shootings taken place before her elevation to stardom.

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

Harm to the market for professional photographs used for display in newspapers was not substantial if any.²⁵⁴ El Vocero’s low-resolution reproduction on its front page was “simply an inadequate substitute for an 8” x 10” glossy. And, in any event, Núñez did not seek any profit in the first place since he agreed to do a favour to Giraud’s agent and offer his services gratuitously. Market harm was only conceivable in the narrower market for photographs sold to newspapers for illustrating controversy. But Núñez had voluntarily dispensed with his economic benefits in respect to the copyrights in suit, which simply meant that no cognizable market harm could be recognized. This is another example of a plaintiff failing to exercise care to avoid bearing the full cost of the copyright accident.

²⁴⁸ Nunez v. Caribbean Intern. News Corp., 235 F.3d 18, 22 (1st Cir. 2000).

²⁴⁹ *Id.*

²⁵⁰ *Id.* at 24.

²⁵¹ *Id.*

²⁵² *Id.* at 22-3.

²⁵³ *Id.* at 23.

²⁵⁴ *Id.* at 25.

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

As already indicated, the delineation of a relevant market serves the purpose of determining the part of the incentives package that should be foregone in case the fair use defence is affirmed.²⁵⁵ Through this determination a court can properly balance the social cost of lower incentives due to a decrease in the amount of internalized benefits against the social benefits accruing from the secondary use. It is a market definition directed at promoting the goals of copyright policy through an appropriate demarcation of the copyright's scope. Another interesting feature of *Núñez v. El Vocero* is the illustration of the notion that the duty of care owed to the copyright owner might vary according to the situation of the particular plaintiff. In addition, *Núñez's* fee-waiver can be perceived as a conscious failure to comply with duties of care towards his own economic interests.

D. Private/Personal Uses

The exoneration of at least some private or personal uses from liability is vital for bringing the congressional mandate to promote the progress of science into fruition. Widespread knowledge dissemination does not simply amount to a function of the amount of authorial works that copyright protection incites but it equally depends on the manner in which the consumer is able to interact with the produced works. Some degree of autonomy in consumption is necessary, for instance, so that the consumer is able to fully enjoy the musical works he has lawfully acquired and absorb their cultural value efficiently.²⁵⁶ Imagine someone who is not allowed to make copies of his cds and save them onto the memory of his personal stereo. Often, the full value of a cultural good is better appreciated through discourse and debate that occurs in the context of collective or shared consumption.²⁵⁷ Think, for instance, of a group of schoolmates passing to each other a movie of the type they particularly like with the aim of exchanging views and ideas about a given subject. Or a group of individuals reflecting on the social issues raised in a documentary they have all watched together on DVD. As a matter of personal need in self-expression consumers have an interest in being free to engage into transformative reproductions of an earlier work. Consider a kid or an adult drawing pictures of heroes featuring in RPG games while combating each other, for instance. A young artist may systematically copy the work of contemporary painters at home in an attempt to learn from the masters. All the aforementioned uses promote both knowledge dissemination and incremental authorship. Some other uses such as the whistling of a copyrighted tune in the bathroom rather have a bearing on the individual's sphere of privacy.

²⁵⁵ See *infra* __

²⁵⁶ Joseph P. Liu, *Copyright Law's Theory of the Consumer*, 44 B.C.L. REV. 397, 406-11 (2003)(arguing that copyright law should recognize the interests of consumers who are more active in dealing with a work of authorship).

²⁵⁷ Jessica Litman, *Lawful Personal Use*, 85 TEX. L. REV. 1871 (2007)(exploring the various types of personal uses and cautioning against suppression of consumer interests through over-enforcement of copyrights).

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

The starting point of the analysis is the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc.*²⁵⁸ In the end, the dispute turned upon whether the distribution of an analog videocassette recorder rendered Sony indirectly liable for reproductions made by consumers who had made copies of TV programs to watch them at the time of their convenience in the privacy of their home. Sony's liability was contingent upon a finding that those copies were illegal with the ultimate question being whether such private copying amounted to fair use. A divided Supreme Court ruled that such private and non-commercial copying of TV programs for the purposes of time-shifting qualifies as fair use.²⁵⁹ In the majority's view private and non-commercial uses should be deemed presumptively fair shifting the burden of proof to the copyright owner who has to establish that the exemption of a specific use would undermine the incentives that copyright is supposed to secure by harming his markets.²⁶⁰

Sony was only able to provide speculative evidence of such harm.²⁶¹ Copies made by consumers would normally be erased after the program had been watched and there was no culture of such videotapes being shared and copied among large groups of individuals. Hence, there was no palpable possibility of the private copies made by Betamax users substituting for Universal City Studio's works.²⁶² In other words, there was no indication that time-shift copying of TV programs with the assistance of the Betamax device was likely to have any adverse effect on the plaintiff's markets.²⁶³

According to the Ninth Circuit, creating copies of MP3 files stored in a computer's hard drive to render one's own music portable constituted a "paradigmatic non-commercial personal use entirely consistent with the purposes of the Act."²⁶⁴ Rio, the first portable MP3 player, incorporated exactly that function which made it possible for users to space-shift musical files they lawfully owned. The main issue in dispute was whether the distribution of Rio had violated the obligation to introduce anti-copying protection measures and comply with royalty payment requirements imposed by the AHRA. Liability did not arise because Rio was not in fact a digital audio recording device to which AHRA was applicable as it was not capable of reproducing a digital music recording indirectly from a transmission.²⁶⁵ Nevertheless, the court adamantly confirmed the general principle that such personal uses are fair and copyright liability would not attach to the marketing of devices that simply facilitate them.

²⁵⁸ *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

²⁵⁹ *Id.* at 455-56.

²⁶⁰ *Id.* at 450-51.

²⁶¹ *Id.* at 454.

²⁶² *Id.* at 452-53.

²⁶³ Stan J. Liebowitz, *The Economics of Betamax: Unauthorized Copying of Advertising Based Television Broadcasts* (1985), available at <https://ssrn.com/abstract=342741> or <http://dx.doi.org/10.2139/ssrn.342741> (noting also that the use of VCRs did not have a significant effect on the advertising revenues of the television broadcasters since those devices did not offer effective means for avoiding commercials).

²⁶⁴ *Recording Industry Ass'n of America v. Diamond Multimedia Systems, Inc.*, 180 F.3d 1072, 1079 (9th Cir. 1999).

²⁶⁵ *Id.* at 1081.

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In the same spirit, the Ninth Circuit ruled that the sale of 'Game Genie', an add-on product which made it possible for users of the Nintendo Entertainment System (NES) to interfere with the game and effectuate a series of modifications to the video games, did not infringe Nintendo's copyrights.²⁶⁶ By use of some code the gamer could, for instance, render his character invincible in battle. Assessing infringement, the court held that the private uses involved did not give rise to derivative works.²⁶⁷ This was because no permanent copies of the audiovisual displays created through 'Gene Genie' could be made. In addition, the allegedly infringing product did not alter the data stored in the game cartridges but simply interfered with flow of data between a given game cartridge and the central processing unit of NES. Notwithstanding it being unnecessary for deciding the case, the court moved on to affirm that gamers were engaging in fair uses of the earlier works since what they were doing was analogous to "skipping portions of copyrighted works or viewing denouements before climaxes."²⁶⁸

Regardless of how welfare-enhancing private and personal uses may be, the levels of those activities should not be excessive. Increased shared consumption, for instance, might indeed harm the markets for the original work. This is particularly evident in the case of P2P file sharing.²⁶⁹ Virtually limitless as it may be, the free consumptive use that takes place within file sharing networks is a menace to the market for recorded music. Even if peer-to-peer file sharing technology enhanced consumers' autonomy in consumption by allowing them to store their MP3 files in an alternative medium or facilitated the purchasing choices consumers by allowing them to sample music uploaded by other users, the fact that the copy is made available to an infinite number of users is sufficient to render those otherwise desirable uses dangerous activities from an economic perspective.²⁷⁰ Indirect appropriability is not possible because the copyright owner cannot identify those owners of lawful products who make copies to charge them a higher price, while the strategy of charging a skyrocketing price for the first copy would yield economic benefits lower than the profit-maximizing price since the price of the subsequent copies would drastically decrease within a very short period of time.²⁷¹ Despite the difficulty in assessing the exact effect of a secondary use on the copyright owner's markets,²⁷² the possibility of an error can be minimised by having recourse to

²⁶⁶ Lewis Galoob Toys, Inc. v. Nintendo of America, Inc., 964 F.2d 965 (9th Cir. 1992).

²⁶⁷ *Id.* at 967-69.

²⁶⁸ *Id.* at 971.

²⁶⁹ A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1017 (9th Cir. 2001).

²⁷⁰ *Id.* at

²⁷¹ Benjamin Klein, Andres V. Lerner & Kevin M. Murphy, *The Economics of Copyright "Fair Use" in a Networked World*, 92 AEA PAPERS and PROCEEDINGS 205, 206-7 (2002).

²⁷² Liebowitz, *supra* note __; In another subsequent study, Liebowitz concluded that there is strong evidence of file-sharing harming the music industry, Stan J. Liebowitz, File-Sharing: Creative Destruction or just Plain Destruction? 49 J. LAW ECON. 1 (2006). See also Thomas J. Miceli & Richard P. Adelstein, *An Economic Model of Fair Use*, 18 Information Economics and Policy 359 (2006)(setting as basis of their analysis the assumption that some consumers who would not have been able to purchase the original if copying was impossible. They suggest that fair use should allow access to those users arguing that this would maximize social welfare as the secondary use benefits a group of consumers without decreasing the welfare of copyright owners. Where a part of the consuming public has the luxury of choosing between the options of purchasing the original or obtaining a copy, courts would have to balance the potential losses and gains in welfare that the stakeholders involved have to experience as a result of the secondary use. All in all, Miceli and Adelstein come to the same conclusion with Landes & Posner, *supra* note __, namely that optimal copyright protection lies somewhere below the level of full and complete protection). Apparently, it would require a fairly good amount of accurate market information, which would not always be readily available, to effectuate all those trade-offs. Some of the conflicting empirical research that has been carried out examining the effect of file-sharing on the music

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other methods for applying the law such as analogy. Napster was clearly not analogous to Sony's VCR or Diamond's Rio MP3 player, which did not involve extensive distribution of copyrighted material to the public.²⁷³ Even if the possibility of error cannot be excluded, the Ninth Circuit imposed a reasonable standard of care to the defendants.

The argument based on analogy protects the reliance investments of authors. It also goes in tandem with the general principle of securing incentives for creative activity by granting evidentiary easements to the copyright owner in respect to a properly defined subject matter to provide meaningful protection. Furthermore, analogy has the potential of minimising the possibility of error and creates rules, which despite their possible shortcomings they at least allow for some increased efficiencies in the allocation of resources by prompting stakeholders to coordinate their behaviour according to some legal rule-like standard. Most importantly, a light-handed application of the fair use defence at the early stage where controversy arises about the legality of a specific type of dealing with earlier works is likely to interfere with the formation of markets for that secondary use.²⁷⁴ The cumulative precedential effect of *Sony* and *Napster* gives rise to a legal landscape where both the interests of copyright owners and the interests of the public in private/personal dealings with earlier works find consideration.

E. Appropriation Art

Many works of authorship would eventually morph into shorthand for a range of meanings after having become the subject matter of social discourse.²⁷⁵ By exempting the use of earlier works as ciphers for one's own expressive purposes from copyright liability, the fair use doctrine secures the unhindered participation of third parties in sociocultural affairs and promotes a social interaction that is abundant in colourful means of expression.

In *Blanch v Koons*,²⁷⁶ a fashion photographer sought to assert a copyright claim in one of her works titled the "Silk Sandals." The photograph depicted the pair of a female's lower legs and feet wearing sandals as they were resting crossed at the lap of a male model in an airplane cabin. Koons, a pop artist, used the depiction of those feet and shoes as one of the collage elements contained in his oil painting "Niagara." As the artist himself explained in an affidavit that he submitted to the district court, the reason why he decided to juxtapose women's legs against a backdrop of food and landscape was because he intended to "comment on the ways in which some of our most basic appetites – for food, play, and sex – are mediated by popular images."²⁷⁷ By re-contextualizing those

industry is summarized by HAROLD WINTER, ISSUES IN LAW AND ECONOMICS 46-58 (2017)(arguing that while evidence does suggest some revenue losses for the rights holders, copyright protection is not necessary because the remaining rents are enough to generate incentives to produce creative works). To accept that argument, though, would tantamount to adhering to the notion that IP rights function as incentive generating mechanisms that induce creativity by simply allowing the recoupment of production costs rather than by securing a profit-maximizing opportunity. See Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEXAS L. REV. 1031, 1065 (2005)(arguing that IP rights make economic sense only to the extent necessary to enable creators to cover their average fixed costs).

²⁷³ *Napster*, 239 F.3d at 1019.

²⁷⁴ ROBERT P. MERGES, JUSTIFYING INTELLECTUAL PROPERTY, 250-52 (2011).

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²⁷⁶ *Blanch v. Koons*, 467 F.3d 244 (2nd Cir. 2006).

²⁷⁷ *Id.* at 247.

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specific fragments of the earlier work, Koons tried to “compel the viewer to break out of the conventional way of experiencing a particular appetite as mediated by mass media.”²⁷⁸

Satisfied that the defendant had afforded a cogent explanation for using copyrighted material, the Second Circuit noted that Koons’s collage was driven by an expressive purpose different to the one that incited the creation of the work from which the artist had borrowed some creative parts. Hence, the junior use was deemed transformative.²⁷⁹ As regards the commercial nature of defendant’s use, who created the work under commission for exhibition in a German art gallery, the court held that the commercialism of the use by the secondary user was of less significance given that “Niagara” was a “substantially transformative” work.²⁸⁰ Activities such as comment or criticism are not incompatible with commercial profit. Commercialism would normally allow those activities to persist and flourish even when the copyright owner and third parties stand up and are counted against the use of an earlier work as fodder for social commentary. Emphasis was further placed on the public interest and in particular the social value generated by the public exhibition of art.²⁸¹ Apparently, the court considered that social welfare would increase if the benefits associated with the secondary use were treated as positive externalities instead of being internalized in favour of the copyright owner.

Hence, the analysis of the first factor tilted the assessment towards the affirmation of fair use.²⁸² Similarly, the court regarded it as immaterial that Koons had drawn upon a copyrighted work of creative nature in the light of the transformative character of his own work.²⁸³ Furthermore, both the quality and value of the materials used were found to be reasonable in relation to the purpose of the copying.²⁸⁴

Reviewing the fair use analysis of the Second Circuit we surmise that using an earlier work as an expressive springboard in social commentary constitutes an activity that should not be suppressed by copyright enforcement and therefore must be subjected to a negligence standard. While the secondary user does not have to exercise care by avoiding the use of creative material, he must refrain from copying more than what is necessary to promote his expressive goals. There is no duty of care imposed on the secondary user to consider appropriating expressive shortcuts from other works in place of the plaintiff’s work.

Getting to the fourth factor, the Second Circuit found that it does not favour the copyright owner since Blanch had never licensed any of her photographs for use in graphic or other visual arts and no other harm to her career plans or to the value of “Silk Sandals” could be foreboded.²⁸⁵ Generally speaking, third parties owe a duty of care not to usurp the demand for the original work including markets for derivative uses. Appropriation artists usually do not encroach upon the copyright owner’s markets since the respective works normally target different audiences and are sold in different markets. The latter argument of the court indicates that the assessment of the fourth factor only considered plaintiff’s traditional markets. As a result thereof, no proper balancing took place between the rent-seeking interests of the copyright owner and the social benefits associated

²⁷⁸ *Id.*

²⁷⁹ *Id.* at 252-53.

²⁸⁰ *Id.* at 256.

²⁸¹ *Id.* at 254.

²⁸² *Id.* at 256.

²⁸³ *Id.* at 256-57.

²⁸⁴ *Id.* at 257-58.

²⁸⁵ *Id.* at 258.

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with the secondary use without this necessarily meaning that *Blanch v Koons* was wrongly decided in result.

Blanch v Koons was decided during the era where the transformative character of the secondary use was given prominence over the other statutory factors.²⁸⁶ Case law and commentary of that time suggested that the transformative nature of the junior use should in the general run of things exonerate without much ado the appropriation artists from liability.

Yet, excessive levels of creative activities in the field of appropriation art may indeed cause social losses by undermining authors' incentives to produce works of authorship if they overabundantly interfere with actual as well as potential licensing markets of the copyright owner or swingeingly reduce the value of the earlier work. William Landes uses the example of a settled dispute between the photojournalist Henri Dauman and Andy Warhol's estate as an example thereof.²⁸⁷ The photographer is being held in high esteem for his iconic celebrity portraits and many other photos including a picture that captured the mournful expression of Jacqueline Kennedy on the day of her husband's funeral. Seeking to document the historical events of his era in his unique art, the famous pop artist cropped that photo uprooting a part focusing on Jackie's face, which he then transposed it onto canvass creating one of his four emblematic "silkscreen portraits" of her.

According to Landes, the fact that the estate reproduced Andy Warhol's silkscreen image on various merchandising products such as calendars and posters should tilt not only the assessment of the fourth factor but also the complete fair use analysis in favor of the plaintiff since the defendant had obviously tapped into licensing markets customarily exploited by photographers. Furthermore, he argues, that under the said circumstances neither is the copyright owner inclined to prohibit the secondary use nor does the appropriation artist lose incentives to generate works of authorship being mindful of how high the market values his creations. No significant transaction costs or other impediments are present, which could prevent the parties from reaching a mutually beneficial bargain. Things would have been different, as Landes suggests, if Andy Warhol had transformed Dauman's photo only to create a single visual work or to a limited edition series of those "silkscreen prints." In such a case, the cutback of the copyright owner's incentives package resulting from the loss of a licensing opportunity is offset by the social value that appropriation art engenders be it as vehicle for social commentary or as a form of art in itself.

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

²⁸⁶ See generally Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 LEWIS & CLARK L. REV. 715 (2011)(arguing that *Campbell* signified the ascendancy of the "transformative use paradigm", which overshadowed the "market-centered paradigm" represented by of *Harper & Row* and other preceding cases). See also Jeannine M. Marques, *Fair Use in the 21st Century: Bill Graham and Blanch v. Koons*, 22 BERKELEY TECH. L.J. 331 (2007)(linking the raise in significance that transformativeness had gained in the meantime as a determinant of the fair use calculus to copyright's ultimate goal of promoting knowledge and the arts).

²⁸⁷ William M. Landes, *Copyright, Borrowed Images, and Appropriation Art: An Economic Approach*, 9 GEO. MASON L. REV. 1 (2000).

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Quite often, it is actually the plaintiff who fails to adduce adequate information about the licensing of his work as the case was in *Seltzer v. Green Day*,²⁸⁸ where the defendant punk rock band used in one of the backdrop videos they projected during their stage show a copy of plaintiff's "Scream Icon", a drawing which had been reproduced on posters and stickers hanging throughout the neighbourhoods of Los Angeles by way of street art.

While the exact message conveyed by Dereck Seltzer's work could not be readily extrapolated, the Ninth Circuit accepted that the defendants had indeed added their own expressive content since the song, in connection to which the earlier work had been used sought, to cast aspersions on the "hypocrisy of some religious people who preach one thing but act otherwise" and denounce the "violence that is done in the name of religion."²⁸⁹ There was no indication whatsoever that plaintiff's work somehow adverted to the same theme. Rather, the "Scream Icon" came across as a "directionless anguished screaming face."²⁹⁰ Thus, the court found that the junior use was transformative.

Reviewing the analysis of the court we surmise that the latent economic rationale for accepting the fair use defence in the case at hand lies in the fact that the defendant has exercised due care towards the legitimate interests of the copyright owner. First of all, the secondary use was only incidentally commercial since the band did not use the earlier work to promote its concerts, CDs or other merchandise. "Scream Icon" was used in four-minute video running in the background while the song "East Jesus Nowhere" was performed. A large red "spray-painted" cross was superimposed on middle of the screaming face, which dominated the video clip's frame. The action takes place at accelerated pace in the surroundings of a brick alleyway covered in graffiti depicting three defaced images of Jesus Christ where in the course of several days many other cognoscenti of the same art would drop by to put their own touch to the scene. Despite those changes made to the drawing by Staub, the video-designer, the earlier work was identifiable. Therefore, the "Scream Icon" was primarily resorted to as an expressive shortcut with any commercial aspects associated with its use being simply incidental.²⁹¹

Obviously, Green Day's quasi-commercial use did not substitute for the original, which was primarily envisaged by its creator as a piece of street art some time ago.²⁹² Since no traditional markets such as those related to general merchandise products were harmed and plaintiff did not provide any evidence of likelihood that he would develop any further markets for his work, the defendant could avail himself of the fair use defence to escape liability.²⁹³

The court did not examine whether "reasonable markets" were harmed. Given that the copyright incentives package seeks to internalize benefits that would allow authors to capitalize upon the full market value of their works by virtue of general and abstract rules, (across copyright space.). Of course, even if the copyright owner is successful in showing that the analysis of the fourth factor favors his position to larger or lesser degree, this does not really mean that he is guaranteed an easy victory on the fair use argument. It rather means that any harm sustained in respect to those markets should be balanced against the contribution of the secondary use to social welfare. In

²⁸⁸ *Seltzer v. Green Day, Inc.*, 725 F.3d 1170 (9th Cir. 2013).

²⁸⁹ *Id.* at 1174.

²⁹⁰ *Id.* at 1177.

²⁹¹ *Id.* at 1175-78.

²⁹² *Id.* at 1179.

²⁹³ *Id.*

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Seltzer v. Green Day, for instance, even if we assume that the photographer should obtain benefits from an unforeseen exploitation method for his work any harm would be minimal since the drawing was used only for a very short video during the tour of a music group.

The important intuition emanating from the analysis of the Ninth Circuit in this case is that the transformative nature of the earlier work is not dispositive and that courts should throw themselves into a careful balance of the individual and collective equities stumbling across each other in a given copyright dispute.²⁹⁴ No matter how transformative and socially desirable their activities are, appropriation artists do owe a duty of care towards copyright owners.²⁹⁵ Such duty may also arise in respect to the value of the earlier work.

²⁹⁴ In our view, the arguments brought forward by Merges, *supra* note ___ in respect to parodic secondary uses apply mutatis mutandis to the case of appropriation art. Cf. John Carl Zwisler, *(Mis)appropriation Art: Transformation and Attribution in the Fair Use Doctrine*, 15 CHI.-KENT J. INTELL. PROP. 163, 190-92 (2016)(arguing that the emphasis should be placed on the fourth factor but the plaintiff should be required to establish the likelihood of entering the market where the secondary use have taken place); Brittani Everson, *The Narrowest and Most Obvious Limits: Applying Fair Use to Appropriation Art Economically Using a Royalty System*, 63 CATH. U. L. REV. 729 (2014)(suggesting that the institution of a royalty system would do justice to the legitimate interests of both copyright owners and appropriation artists); Marci A. Hamilton, *Appropriation Art and the Imminent Decline in Authorial Control over Copyrighted Works*, 42 J. COPYRIGHT SOC'Y U.S.A. 93 (1994)(advocating the introduction of a liability rule); John Carlin, *Culture Ventures: Artistic Appropriation and Intellectual Property Law*, 13 COLUM.-VLA J.L. & ARTS 103 (1988).

²⁹⁵ One of the challenges appropriation art poses to the copyright system is the problem of weeding out those cases where the defendant pretentiously alleges that the secondary use conveys some sort of social commentary to justify an attempt to gain commercial profit from an earlier work. In *Rogers v. Koons*, 960 F.2d 301 (2d Cir. 1992), the same appropriation artist was sued for copyright infringement for creating a sculpture entitled "String of Puppies" based on a black-and-white photo made by the plaintiff, which depicted a man and woman seated on a bench holding eight puppies in their arms. The later work emerged after Koons directed artisans to copy much details from the original work and effectuate perceptible changes such as adding flowers to the heads of the models and exaggerating the puppies' noses. Defendant's fair use defence was rejected with the argument that the secondary use fell short of being a parody meaning, in the view of the court, that the claim to a transformative contribution benefitting the public was weak. The court was actually concerned with the fair use defense ending up having no practical limits if defendants like Koons were able to argue that they are "acting within an artistic tradition of commenting upon the commonplace". Rightfully, the decision has been subjected to criticism because it failed to consider that there is social benefit in using earlier works as fadders for social commentary even if the later works are not parodies in the legal sense. See E. Kenly Ames, *Beyond Rogers v. Koons: A Fair Use Standard for Appropriation*, 93 COLUM. L. REV. 1473, 1506 (1993); Roxana Badin, *An Appropriate(d) Place in Transformative Value: Appropriation Art's Exclusion from Campbell v. Acuff-Rose Music, Inc.*, 60 BROOK. L. REV. 1653 (1995); Lynne A. Greenberg, *The Art of Appropriation: Puppies, Piracy, and Post-Modernism*, 11 CARDOZO ARTS & ENT. L.J. 1, 29-30 (1992). What is probably there to take from *Rogers* is the notion that in the absence of a palpable social benefit, the first factor, and also the overall fair use analysis, would tend to favour the plaintiff. The Second Circuit was probably not really convinced by the artist's claims that his work was intended to suggest that "the mass production of commodities and media images has caused a deterioration in the quality of society" and to critically comment upon the earlier work as well as "the political and economic system that created it". Arguably, the social benefit generated by the secondary use was not substantial or seemed to have been overshadowed by defendant's commercial motivation. Hence, it is not surprising for the court to have argued that defendant's intent could be not play the decisive role in assessing the transformative character of an appropriation artist's work. Apart from that, Koons appropriated, according to the court, an amount of original expression that was disproportional to his expressive purposes. Last but not least, the appropriation artist was deemed to have acted in bad faith because he had removed the copyright notice from plaintiff's photo before handing it over to the artisans with instructions on how to create the sculpture at issue. The decision seems to be right in result, see Landes, *supra*

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In *Kienitz v. Scornie Nation*,²⁹⁶ the defendant, an apparel manufacturer, isolated the face of the mayor of Madison, Wisconsin Paul R. Soglin from a photo taken by his photographer and re-contextualized it as an element featuring on t-shirts and tank tops that were eventually sold at the local Mifflin Street Block Party. Scornie Nation's clothing featured Mayor's face as separated out of Michael Kienitz's photograph albeit in a lime green color surrounded by the phrase "Sorry for partying" written in multi-color script. Defendant's use was deemed transformative in view of the political criticism it exerted on the previous initiatives undertaken by the municipal government official to shut down the annual event.²⁹⁷ Importantly, the Seventh Circuit rejected the notion of transformativeness being commensurate with the touchstone of fair use analysis.²⁹⁸ Again, the plaintiff did not give a shot to convince the court that the defendant has turned his plans to license the use of his photograph for apparel upside-down. Nevertheless, Judge Easterbrook delved on his own initiative into the arguments that the photographer himself could have put forward.²⁹⁹

At first, he called into question the necessity of using Michael Kienitz's photo for attaining its expressive purposes pondering over the reason behind such choice when various other non-copyrighted alternatives including snapshots that the defendants could have taken themselves were available and capable of serving the same end. Whether the costs of precaution, that is the limitation of the freedom to choose the befitting medium for the purposes of engaging in social commentary outweighs the cost of appropriating the copyright owner's creating efforts would constitute an issue for the court to examine in the light of the specific set of facts that it has to evaluate. For instance, there might be a necessity to use the copyrighted work involved *Kienitz v. Scornie Nation LLC* according to the said calculus since the relevant photo was taken at Soglin's inauguration. It may well be that some photos carry with them certain symbolism which makes them particularly apt for adaptation in later works taking aim at exercising valuable social criticism.

Apart from an assessment of necessity, Judge Easterbrook sketched the trajectory for devising theories of harm that appropriation artists may impose on copyright owners, which could be invoked by the latter within the framework of the fourth factor. Accordingly, the judge referred to the possibility of celebrities not willing to work with Michael Kienitz for fear of the photographs ordered being used against them in due course because of their supreme quality.³⁰⁰

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

However, this should not be taken to suggest that the expansion of the transformativeness concept to include uses that simply contribute different aesthetics or simply alter the earlier work without

note __ at 21-2 (noting that where the appropriation artist creates more copies from a single source the case against fair use becomes stronger).

²⁹⁶ *Kienitz v. Scornie Nation LLC*, 766 F.3d 756 (7th Cir. 2014).

²⁹⁷ *Id.* at 758.

²⁹⁸ *Id.* "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."

²⁹⁹ *Id.* at 759.

³⁰⁰ *Id.*

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adding any ascertainable further meaning is wrong. Appropriation art is an acclaimed form of artistic expression that should not be crippled by overly far-reaching copyright claims. Since the courts have to implement negligence standards to keep the activity levels of appropriation artists at an optimal level, they first have to recognize appropriation art as an activity that has to be subjected to a negligence standard in the first place. Andy Warhol's "silkscreen portraits" of JFK's widow, for instance, were rather aimed at enhancing the socially acknowledged features of that public persona with no intention whatsoever to either exercise criticism or to shed light on some other perceived aspects of her personality.

Another example highlighting the function of the first factor as the stage where courts determine the type of socially desirable activity before seeking to induce the optimal levels of that activity through an appropriate legal standard is the decision of the Second Circuit in the case of *Cariou v. Prince*.³⁰¹ This was another case about a photographer taking umbrage at his work igniting the inspiration of an appropriation artist.

Back in 2000, the French photographer Patrick Cariou published a photography book comprising many black and white photos of Rastafarians living in isolated mountainous areas of Jamaica. The book's title "Yes Rasta" pertains to a personal greeting used by the members of those communities. Cariou's artistic endeavor was to capture the essence of that culture. Rastafarians have turned their backs to the modern materialistic world for the sake of carrying a simple but self-reliant spiritual life showing absolute respect for the natural environment. The author managed to make friends with them and gain enough of their trust to be allowed to carry out his project within six years while living with them. Richard Prince used many of those photos while promoting his own art. One characteristic instance concerned alterations made to a picture depicting a Rastafarian man in the wild. The appropriation artist turned him into a player of electric guitar and placed splotches of blue paint atop his eyes.

To appreciate the nature of defendant's creative efforts the opinion resorted to a definition provided by Tate gallery according to which appropriation art entails "the more or less direct taking over into a work of art a real object or even an existing work."³⁰² In the view of the Second Circuit, the secondary use was transformative because it manifested an entirely different aesthetic from the earlier work.³⁰³ In contrast to the classic portrait- and landscape photography found in the book "Yes Rasta", Prince's "crude and jarring" works are "hectic and provocative." Compared to the earlier work, Prince's composition, presentation, scale, color palette, and media were deemed by the court to be different and new giving rise to a clearly distinguishable expressive disposition.³⁰⁴

³⁰¹ *Cariou v. Prince*, 714 F.3d 694 (2nd Cir. 2013).

³⁰² *Id.* at 700.

³⁰³ *Id.* at 707-8.

³⁰⁴ Importantly, the court concluded that Prince's work was transformative despite him conceding that he did not really have any message to convey through his work. What mattered instead was how the specific work appeared to the reasonable observer. Focusing on the perception of the public is a proper approach to ascertain the public benefit of the secondary use. Artists often refrain from providing explanations about the message conveyed by their works. They may not feel obliged to or their artistic intention might have been to puzzle the receiver of the communication and leave him with his thoughts regarding some issue. In other instances, the interpretation of a work might be highly contextual or entail a significant amount of subjectivity. On these issues see generally, Laura A. Heymann, *Everything Is Transformative: Fair Use and Reader Response*, 31 COLUM. J.L. & ARTS 445, 455 (2008)(relying on literary theory for the proposition that transformativeness rests on the meaning ascribed to a subsequent copy of an earlier work by the readers. In this sense, she argues, even an original work fixed into a tangible medium of expression has transformative character because

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

Where the court seems to have gotten it wrong is at setting the requisite level of care for defendant's actions. It did so by essentially arguing that the transformative character of the secondary use upstages not only commercialism but also the highly creative nature of the published copyrighted material that has been appropriated.³⁰⁵ The court also argued that the fourth factor favoured Prince because Cariou had "not actively marketed his work or sold work for significant sums, and nothing in the record suggests that anyone will not now purchase Cariou's work, or derivative non-transformative works (whether Cariou's own or licensed by him) as a result of the market space that Prince's work has taken up."³⁰⁶

There is nothing to suggest that the level of activities related to appropriation art would be suboptimal if photographers were entitled to control the uses of their works by appropriation artists under some circumstances especially when the profits springing from those art markets are soaring. Prince sold eight of his Cariou-inspired artworks for 10,480,000. He also received works of painter Larry Rivers and sculptor Richard Serra in exchange for some other pieces of the Canal Zone series. Being required to hand over a slice of that pie to Cariou would not undermine his incentives to keep on trying to change other artists' works "into something that is completely different" as he himself described his art.

The fact that Cariou himself would not have liked his documentation of Rastafarian culture to look pop art at all does not change anything in this analysis. A photography book like "Yes Rasta" made its author a trifling sum of 8,000 dollars. In his position, another photographer would have wholeheartedly negotiated a license agreement.³⁰⁷ And even if there would always be artists like Cariou who would firmly hold the line against such prospect, there is a plethora of published works available for an appropriation artist to draw upon. To counter that argument the defendant must establish a necessity to copy the earlier work to promote his artistic purposes. For the assessment of the fourth factor this should mean, of course, that appropriation artists owe a duty of care not to

it imperfectly represents some intangible ideal object or notion. This is also in line, as Heymann shows, with the Supreme Court's definition of transformativeness in *Campbell*, 510 U.S. 579, where the crucial aspect was held to be whether the secondary used has "added something new, with a further purpose or different character, altering the first with new expression, meaning, or message." Heymann further examines the possibility of there existing various interpretative communities with the result of the same secondary use being perceived differently by different people. The latter is an aspect that needs to be considered when balancing the equities involved in a given dispute. See also, Jonathan Francis, *On Appropriation: Cariou v. Prince and Measuring Contextual Transformation in Fair Use*, 29 BERKELEY TECH. L.J. 681, 684 (2014). *Cariou* is illustrative of the notion that even minimal physical interferences with an earlier work may well give rise to a transformative use in the copyright sense.

³⁰⁵ *Id.* at 708.

³⁰⁶ *Id.* at 709.

³⁰⁷ Appropriation art may well give rise to instances where the value of the later work greatly exceeds the price for which the copyright owner would be willing to tolerate an otherwise undesirable dealing by an appropriation artist, cf. Gordon, *supra* note __ at 181.

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usurp markets that did not actually incited the production of the earlier work in the sense that they were not envisaged at the time that work was created or at some later point. It turns out that the commercial nature of the secondary use is the most significant parameter for regulating the level of care that appropriation artist must exercise. Intense commercialism, either in terms of the quantity of lucrative merchandise placed on the market quantity or with regard to the overindulgent monopoly profits that are realizable in the market where the transformative work is sold, would indicate that the defendant has encroached upon benefits in which the author of the earlier work should share in. Ideally, this standard of care would induce synergies and cross-fertilization between the different forms of art with photographers actively seeking to create copyrightable material that appropriation artists might wish to use as an input for their own works. Where the commercial nature of the secondary use is incidental, as the case was in *Seltzer v. Green Day*, or economically insubstantial the fair use analysis may favor the defendant. In the latter case, the law would cater for optimal activity levels by ensuring that less prominent appropriation artists are endowed with the freedom of action that is requisite for practicing their art.³⁰⁸

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

F. Uses Facilitating Access to Information

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

Starting from *Kelly v. Arriba Soft*,³⁰⁹ the Circuit courts have rendered sound judgments, which have clarified the law and set proper standards of care. Defendant's internet search engine displayed its results in the form of picture thumbnails instead of text. Once a search had been initiated, a computer program would crawl the web gathering relevant images, which were then temporarily

³⁰⁸ A more balanced approach under which appropriation artists may be held liable for copyright infringement despite the transformative nature of their contribution in cases where a licensing agreement seems reasonable would, apart from maximizing social welfare, correspond with the fundamental function of the fair use doctrine to expand of copyright protection while designing limitations to the exclusive right. Its very existence as a safety valve encourages the courts to consider additional benefits as internalized to the benefit of the copyright owner by virtue of his exclusive right if the balancing of the various equities involved suggests that this makes economic sense. Scholars have traced this pattern back to the early developments of the doctrine, see Matthew Sag, *God in the Machine: A New Structural Analysis of Copyright's Fair Use Doctrine*, 11 MICH. TELECOMM. & TECH. L. REV. 381, 414 (2005). The more courts explore the transformative nature of secondary uses the more they are able to appreciate the magnitude of the social benefit resulting from such dealings with earlier works and become able to balance it with the economic interests of copyright owners.

³⁰⁹ *Kelly v. Arriba Soft Corp.*, 280 F.3d 934 (9th Cir. 2002).

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saved in Arriba's server before being turned into thumbnails. Double-clicking on the thumbnail would lead the user to another webpage, the "Images Attributes" page where the original full-sized image featured as an inline link. At the same page the user would find some technical information about the photo and a link to the originating website while being exposed to paid advertisements. Later on, Arriba changed the configuration of the results page. Each thumbnail was accompanied by two separate links. The "details link" produced a webpage similar to the "Images Attributes" page the only difference being that the former displayed a thumbnail and not the original image. When clicked upon, the "source link" would cause two windows to emerge. Similar to the "Image Attributes" page, the original full-sized image was imported directly from the originating image into the first window (inline linking). The second window simply displayed the webpage where the image was found by the web crawler (framing).

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

In its fair use analysis, the Ninth Circuit had to ascertain first whether the use of thumbnails in defendant's search engine was fair.³¹⁰ Addressing the first factor, the court found the secondary use to be transformative because it served a function that was different from the aesthetic purpose of the original works since the thumbnails "benefit the public by enhancing information gathering techniques on the internet."³¹¹ The commercial character of Arriba's use was deemed "more incidental and less exploitative in nature than more traditional types of commercial use."³¹² Arriba was not making profit from the sale of the images themselves but from paid advertising attracted by its internet search services. Commercialism was simply not prevalent enough to trump the transformative nature of defendant's use. Accordingly, the first factor was held to tilt the assessment in Arriba's favor.³¹³ Although the court gives us the impression of intending to declare a winner for each assessment of the individual factors, it seems to have correlated the first and the fourth factor by observing that the thumbnails could not possibly supplant the original works due to the lack of an illustrative or expressive purpose.³¹⁴ In that regard the court adopted a holistic view taking into account both the broader goals of the Copyright Act and the fair use exception in particular while assessing the first factor.

Despite the creative nature of the earlier works, the second factor weighted only slightly in favor of Kelly because his pictures were published, which meant that the author had already been able to exercise the strong right of first publication.³¹⁵

In turn, the court concluded that the third factor was neutral.³¹⁶ Arriba may have copied entire expressive works but nevertheless the amount and substantiality of the appropriated material was, in the view of the court, proportional to the legitimate purpose of facilitating internet browsing by improving the usefulness of a search engine. Even though the court correlated the third with the first factor essentially implying that copying was not excessive,³¹⁷ it did not directly examine whether the respective levels of activity were excessive in the light of the possible impact of the secondary

³¹⁰ *Id.* at 939.

³¹¹ *Id.* at 942.

³¹² *Id.* at 940.

³¹³ *Id.* at 942.

³¹⁴ *Id.* at 941-42.

³¹⁵ *Id.* at 943.

³¹⁶ *Id.*

³¹⁷ *Id.*

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use on plaintiff's markets and the value of his copyrights. Instead, the court concluded its assessment of the third factor arguing that it did not favor any of the parties to the dispute.

To assess the fourth factor the opinion first gets to identify the copyright owner's actual and potential markets.³¹⁸ Kelly's photos could bring custom to his website where advertising space along with books and travel packages was being sold. Potential licensees included other websites and stock photo databases. Defendant's thumbnails could not harm those markets or depreciate the value of the underlying copyrights because they could not possibly serve as substitutes for the original images. Any attempt to create larger images from thumbnails of lower-resolution would bring along grave reductions in quality, which would render the product unmarketable. Creating low-resolution thumbnails actually constitutes a means to exercise precautionary measures towards the legitimate interests of the copyright owner. Interestingly, the opinion of the Ninth Circuit considered this aspect under the first factor as well without though technically correlating the two factors. "Having considered the four fair use factors" the court found that "two weigh in favor of Arriba, one is neutral and one weighs slightly in favor of Kelly" and concluded that "Arriba's use of Kelly's images as thumbnails in its search engine is a fair use."³¹⁹ Even though, the fair use analysis did not result from a proper correlation of the factors the court nevertheless practically managed to impose the proper standard of care to induce the optimal levels of activity.

On the other hand, those inline-linking and framing practices of Arriba causing the search engine to display full-sized images did not pass muster with the fair use inquiry as they were obviously usurping the photographer's markets.³²⁰ Here, the court did correlate the first with the fourth factor reiterating the principle that the less transformative the new use is the more likely a finding of market harm becomes.³²¹ This time the third factor clearly favored Kelly because copying took place to promote the illegitimate purpose of providing users with access to full-sized copyrighted images within the environment of Arriba's websites.³²² While assessing the first factor the court had already noted that these particular secondary uses had a weaker claim to the fair use defense as they did not offer any social benefit that was comparable to the informational value accruing from making thumbnails of copyrighted pictures available through a search engine.³²³ Again, the conclusion of the court was formulated as an announcement of the number of factors favoring each party.³²⁴ None of the four factors favored Arriba in respect to the display of full-sized images. It appears from this case that the exercise of due care depends largely on ensuring that the images featuring in a search results page do not function as substitutes for the original works.³²⁵

³¹⁸ *Id.* at 943-44.

³¹⁹ *Id.* at 944.

³²⁰ *Id.* at 948. The court's separate analysis of the technological services involved is indicative of a willingness to apply appropriate copyright limitations to each individual innovative aspect of a service bundle, Khio D. Dang, *Kelly v. Arriba Soft Corp.: Copyright Limitations on Technological Innovation on the Internet*, 18 SANTA CLARA COMPUTER & HIGH TECH. L.J. 389, 402-03 (2002).

³²¹ *Kelly v. Arriba Soft*, 280 F.3d at 947.

³²² *Id.* at 948.

³²³ *Id.* at 947.

³²⁴ *Id.* at 948.

³²⁵ Jane C. Ginsburg, *How Copyright Got a Bad Name for Itself*, 26 COLUM. J.L. & ARTS 61, 71-3 (2002) has suggested, the Ninth Circuit effectuated an "encouraging" balance between the public interested in the broad dissemination of information through the internet and the copyright owners' economic interests vis-à-vis potential markets for digital distribution of their works.

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The Ninth Circuit had the opportunity to elaborate upon its analysis in *Perfect 10 v. Google*,³²⁶ which dealt with similar practices. Google was allegedly infringing plaintiff's copyrights in the photographs of nude models through its search service for image content called "Google Image Search." On this occasion, Google was able to avoid direct liability for inline-linking and framing since the search engine neither stored nor communicated copies of the original works to the users.³²⁷ Google simply provided HTML instructions directing the browsers of users' computers to websites where those earlier works were stored. Hence, the fair use analysis of the Ninth Circuit reviewing the denial of the District Court to grant a preliminary injunction against Google focused on the secondary use that involved the creation and display of copies in the form of thumbnails, which were saved in Google's servers.³²⁸

Turning to the assessment of the four factors, the opinion followed the principles set out in *Kelly v. Arriba Soft*. In both cases the conclusions on the first three factors were the same.³²⁹ What differentiated the two disputes in factual terms was that *Perfect 10* had already developed a market for reduced-size images downloadable onto mobile phones. Hence, the plaintiff was able to come up with a legal argument that the secondary use harmed its markets because the thumbnails could effectively supplant the demand for original images. Unfortunately for *Perfect 10*, there was no evidence suggesting that internet users have downloaded its images for cell phone use. With the potential harm remaining just hypothetical, the fourth factor was found to favor neither party.³³⁰ Weighting the significant benefit to the public derived from Google's internet search service against a flimsy possibility of harm, the court was not at all hesitant to rule that the secondary use was fair.³³¹ To put it differently, the standard of care imposed on third parties does not require them to take precautionary measures against harm that is only theoretically likely or purely imaginable damage.

Major libraries consented to Google creating scanned copies of their collections to set up an innovative search service offering the utility of text- and data-mining tools. With the aid of Google's product users could obtain information as to whether a particular word or phrase is referenced in a book and if yes in what frequency along with a maximum of three short snippets containing the search term. In return, the participating libraries were allowed to maintain digital copies of the books included into the project under the condition that they would not be put into uses infringing copyrights of third parties. Confronted with a copyright infringement claim filed by three-authors, Google argued successfully a fair use defence before the District Court, which granted summary judgement in its favour. On appeal, the Second Circuit had to review the assessment of the lower

³²⁶ *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007).

³²⁷ *Id.* at 1159-63.

³²⁸ *Id.* at 1163.

³²⁹ Both cases illustrate the notion that the re-contextualization of an earlier work would give rise to a transformative secondary use even in cases of verbatim copying provided that the copy serves a different function. See Michael D. Murray, *What Is Transformative? An Explanatory Synthesis of the Convergence of Transformation and Predominant Purpose in Copyright Fair Use Law*, 11 CHI. -KENT J. INTELL. PROP. 260, 273 (2012)(examining the development of the analysis under the first factor and showing how courts have given effect to the utilitarian purposes of copyright protection while assessing the transformativeness of secondary uses).

³³⁰ *Perfect 10*, 508 F.3d at 1168.

³³¹ *Id.*

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court finding that the both the “search” and the “snippet view” functions of Google’s service constituted fair uses of the earlier authorial works.³³²

Defendant’s enterprise increased social welfare manifoldly.³³³ It makes it possible for researchers to track language usage or even the lack thereof in all possible contexts throughout time. Some rudimentary bibliographical information along with data about the terms mostly referenced in each book is made available to the public. The users are also provided with links to electronic stores and a list of library collections where the book can be found. By allowing the user to view the term in a relatively narrow context within the text, which is nevertheless enough for the user to decide whether the book is of interest to him, the “snippet view” function increases the amount of information about the books available worldwide. It does come as a surprise that the court held the secondary use to be highly transformative.³³⁴ With its use of the earlier works Google added something new having the further purpose of making significant information about those books available to the searchers. Plaintiffs argued that Google’s commercial motivation should militate in favour of denying fair use. According to their argument, the defendant is a “profit-motivated” entity planning to leverage its control of book searches to fortify its dominance of the Internet search market. Even if the profit reaped is indirect, since it is not attributable to the operation of “Google books” itself, commercialism was still, in the view of the plaintiffs, rampant enough to outweigh the transformative purpose of the use. The court gave that argument a short shrift.³³⁵

Referring to the examples of “universally accepted forms of fair use”, such as news reporting and commentary, Judge Leval proved the point that transformative character and commercial motivation are not mutually exclusive.³³⁶ He saw no reason why commercialism should outweigh the highly transformative purpose of the secondary use. Importantly, the opinion ruled that the first factor favours the defendant after stressing the absence of significant substitutive competition.³³⁷ This means essentially that the court correlated the first and the fourth factor something which also becomes apparent from its reference to the relationship between those two factors as it was described in *Campbell*. Thus, the court truly examined how the character and the nature of the secondary use affects the outcome of the overall balance between the profit-maximizing interests of the copyright owner and the public interest in letting the social benefit accruing from defendant’s transformative purpose materialize.³³⁸

Although the earlier works were expressive, the social benefit generated by the transformative purpose of the new use and the incapacity of Google’s service to function as a meaningful substitute for the original books meant that the second factor also favoured fair use.³³⁹ Rightfully, the court correlated the second factor with the first and fourth factor in order to examine the effect that the nature of the earlier work may have upon the overall assessment. Turning to examine the third

³³² Authors Guild v. Google, Inc., 804 F.3d 202 (2nd Cir. 2015).

³³³ *Id.* at 214-18.

³³⁴ *Id.*

³³⁵ *Id.* at 218-19.

³³⁶ *Id.* at 219.

³³⁷ *Id.*

³³⁸ Importantly, the court was able to ascertain the socially beneficial contribution of the secondary use and affirm the transformative nature of Google’s service even though the defendant had engaged into excessive verbatim copying of entire works. Hence, transformativeness was properly assessed in the light of copyright law’s purposes. See also Patry, *supra* note ___ at § 3:9 (noting that fair use does not require changes to the original and observing the development of transformativeness into a term of art serving teleological purposes).

³³⁹ *Google*, 804 F.3d at 220.

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factor the opinion did not lose sight of its correlation with the fourth factor. The more extensive the copying is or the more qualitatively substantial the appropriated material is, the more likely it becomes that the secondary use will usurp plaintiff's markets.³⁴⁰ Google may have copied entire books but this was necessary for creating a machine-readable text and a corresponding index for each book without the respective unauthorized digital copy being revealed to the user of the "search" function. In addition, the amount and substantiality of the copyrighted material appropriated by Google was deemed proportional to the transformative purpose sanctioned by the first factor.³⁴¹

Equally, the defendant has taken all the precautionary measures necessary for ensuring that the "snippet view" function would not serve as an effective substitute for the books about which it was meant to provide the public with information. There were various limitations to the availability of snippets which all together contributed to the users only being able to access "only small and randomly scattered portions of a book."³⁴² For that reason, only one snippet per page was permitted. It was also only one every ten pages that was snippeted. No snippets from books were made accessible if the nature of the earlier work was such that the user could avail himself of a book's value from reading a sole snippet. This was applicable to works such as dictionaries or cookbooks.

Reaching the stage where the fourth factor had to be assessed, the court started its analysis by setting its correlation with the first factor as the premise of the discussion.³⁴³ Highly transformative uses are obviously less likely to usurp plaintiff's markets especially when they serve a different purpose than the original work. Of course, it cannot be excluded that even a transformative use may give rise to a product that is highly substitutable with the copyrighted work of a third party. Google's snippets were far from capable of having such market effect.³⁴⁴

The court did not exclude the possibility of other constellations under which consumer demand for access to the text of a given work could be satisfied through Google's snippets.³⁴⁵ In that event, some sort of economic loss would be possible in the form of either some foregone sales to ultimate consumers or a decrease in libraries' demand for the snippeted book. However, even if such harm was bound to occur, there was no indication that its magnitude would be grave enough to substantially harm the copyright owners' markets. On top of everything, snippets are by their nature more likely to satisfy consumer demand for acquiring or confirming non-copyrightable factual information such as when a user inquires upon the date a historical event occurred and is able to ascertain the relevant data through the use of Google's "snippet view" service. The event of a user

³⁴⁰ *Id.* at 221.

³⁴¹ *Id.* at 221-23.

³⁴² *Id.* at 222.

³⁴³ *Id.* at 223.

³⁴⁴ In that regard, *Google* also highlights the legal insignificance of presumptions within the fair use analysis. Systematic copying of entire works is not unfair per se. See also PATRY, *supra* note ___ at § 5:3. Dealings with earlier copyrighted works involving the mass digitization books had already been addressed by the Second Circuit in *Authors Guild v. HathiTrust*, 755 F.3d 87 (2d Cir. 2014). There, the court held that the creation of digital copies for the purpose of allowing full-text book searches that only showed the page numbers on which a search term appears in a given work amounted without displaying any "snippets" containing that term amounted to fair use. Such excessive copying was exempted from copyright liability on the grounds of fair use when carried out to allow the print-disabled to obtain access to copyrighted books.

³⁴⁵ *Google*, 804 F.3d at 224-25.

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satisfying his need of consuming an author's copyrightable expression with the aid of a snippet was considered by the court to be a rather remote possibility.³⁴⁶

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

The fair use analysis of the Second Circuit in *Authors Guild v. Google* is paradigmatic. Each factor, and the equities manifested therein, is assessed on the grounds of its impact on the overall fair use calculus after being correlated with the other factors and the equities they represent. In this respect, the Second Circuit has indeed administrated the fair use analysis as a truly multifactorial test implementing a structured ruled of reason. After considering the utilitarian purpose of copyright to promote the public interest in knowledge dissemination and concomitantly protect the interest of the copyright holder, the court managed to regulate the levels of a desired activity through the implication of an appropriate negligence standard.

VI. Conclusion

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

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

Apparently, even socially desirable dealings with earlier works are not unconditionally exempted. Fair use requires secondary users to take into account the legitimate interests of copyright owners. In this respect, the fair use calculus operates as a negligence standard. But this does not render copyright infringement a tort mirroring negligence. Instead, the Copyright Act has adopted a mixed system of liability. Accordingly, copyright infringement mirrors trespass upon property for which the

³⁴⁶ *Id.*

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defendant is strictly liable whereas negligence is utilised to optimise the levels of specific activities without addressing the general duty of care owed by third parties towards the proprietary interests of the copyright owner. Copyright optimists and copyright pessimists³⁴⁷ may well resolve their policy disagreements within this legal framework at courts of law. It is neither necessary nor advisable, in my view, to restructure the tort of copyright infringement in a manner that it would end up emulating the tort of negligence to rectify any possible shortcoming that the current copyright laws may feature.

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³⁴⁷ On this distinction see GOLDSTEIN, *supra* note ___ at 10-11 (explaining the maximalist and the minimalist approach to define the scope of copyright protection).