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COPYRIGHT: *American Geophysical Union v. Texaco, Inc.*: Copyright and Corporate Photocopying

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*AMERICAN GEOPHYSICAL UNION V. TEXACO, INC.**: COPYRIGHT AND CORPORATE PHOTOCOPYING**

William Patry†

INTRODUCTION: PHOTOCOPYING AS FAIR USE

The availability of the fair use defense for photocopying of copyrighted works was a hotly contested issue during the twelve-year effort to revise the 1909 Copyright Act that culminated in the omnibus revision act of 1976.[1] The dispute, however, focused principally on copying by nonprofit educational institutions, not by for-profit corporations. Educators claimed that broad fair use privileges were necessary to carry out their classroom activities. Authors and publishers countered that such broad privileges would erode an important market, whether sales or licensing. The question of whether photocopying is privileged was addressed, though not resolved, in sections 107 and 108 of the Copyright Act of 1976. Section 107 recognizes the formerly judge-made defense of fair use,[2] while

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* 802 F. Supp. 1 (S.D.N.Y. 1992), *aff'd*, 37 F.3d 881 (2d Cir. 1994) *as amended on denial of reh'g* (Dec. 23, 1994) *amended opinion issued*, 60 F.3d 913 (2d Cir. 1995), *petition for cert. filed*, 63 U.S.L.W. 3788 (U.S. Apr. 24, 1995).

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[1] 17 U.S.C. §§ 101-1101 (1976). That Act has been revised a number of times. *See* WILLIAM PATRY, 1 COPYRIGHT LAW AND PRACTICE 89-120 (1994).

[2] Section 107 reads as follows:

> 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 a 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

section 108 concerns copying by libraries.[3] The reference to photocopying in section 107 is in the preamble, which lists "multiple copying for classroom use" as a possible type of fair use. Whether copying in a particular instance, including for classroom purposes, is a fair use must be determined on a case-by-case basis by evaluating four factors laid out in the statute and any others the court finds relevant.[4] The four statutory factors are (1) purpose and character of the use; (2) nature of the copyrighted work; (3) amount and substantiality of the material copied; and (4) the market effect of the use.[5]

Following passage of the 1976 Act, publishers began an effort to educate the academic community and corporations about their obligations under the new law. When these efforts proved somewhat unsatisfactory, a number of copyright infringement suits were brought,[6] all of which were settled before trial. In 1985, though, a suit arose that would not be so easily resolved.

I. THE *TEXACO* CASE

In 1985, six publishers of scientific, technical and medical journals, backed by the Association of American Publishers, filed a class action copyright complaint against Texaco, Inc. in the Southern District of New York. The publishers alleged that Texaco had committed infringement by making unauthorized copies of articles appearing in their journals.[7] The plaintiffs

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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.

17 U.S.C. § 107 (1976 & Supp. V 1981, 1988 & Supp. V 1993).

[3] *See* 17 U.S.C. § 108 (1976 & Supp. V 1981).

[4] *See infra* notes 54-59 and accompanying text.

[5] 17 U.S.C. § 107 (1976 & Supp. V 1981).

[6] *See* WILLIAM PATRY, THE FAIR USE PRIVILEGE IN COPYRIGHT LAW 210-26 (2d ed. 1995).

[7] The suit did not involve claims of infringement for violating the copyright in the journal as a whole, a "collective work" in copyright parlance, *see* 17 U.S.C. § 101 (1978) (definition of "collective work"), but rather only in the individual articles (written and originally owned by scientists not employed by plaintiffs). This distinction had important consequences for the court of appeals's analysis of the third and fourth factors. *See* text accompanying notes 95-102.

had registered their journals with the Copyright Clearance Center (CCC), a not-for-profit Massachusetts corporation established in 1977 by publishers, authors and users to act as a clearinghouse for those wishing to make photocopies.[8] Users who sign up with the CCC need not seek advance permission to make photocopies of CCC-registered works; they need only pay a license fee after the fact.[9]

The CCC offers two types of license services. The first is the "Transactional Reporting Service," pursuant to which one reports each copy made to the CCC and pays for each article copied according to a fee set by the publisher.[10] The transactional service is used mostly by small document delivery services and businesses.[11] The second license service is the "Annual Authorization Service," pursuant to which one pays a fixed fee per year set by the CCC without the need to report the copies made.[12] The "annualized" license is used mostly by large organizations. From 1978 to the end of 1989, the CCC received approximately $9 million from the transactional service and $18 million from the annualized service.[13]

Until a settlement in 1995, Texaco utilized the transactional license. Based on the small number of copies Texaco reported to the CCC relative to the number of research scientists it employed (and on the plaintiffs' estimates of the average number of photocopies research scientists make), the plaintiffs alleged that Texaco was underreporting the number of photocopies its scientists made, and, therefore, committing infringement.[14] One of the plaintiffs' objectives was to encourage large corporations to subscribe to the annualized license

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[8] American Geophysical Union v. Texaco Inc., 802 F. Supp. 1, 7 (S.D.N.Y. 1992), *aff'd*, 37 F.3d 881 (2d Cir. 1994), *as amended on denial of reh'g* (Dec. 23, 1994), *amended opinion issued*, 60 F.3d 913 (2d Cir. 1995), *petition for cert. filed*, 63 U.S.L.W. 3788 (U.S. Apr. 24, 1995).

[9] *Id.*

[10] *Id.*

[11] *Id.* at 8 n.6.

[12] *Id.* at 8.

[13] As of January 1991, there were 400 users of the transactional service and 100 corporate users of the annualized service. *Id.*

[14] The *Texaco* case was unusual in that when the complaint was filed, plaintiffs did not allege infringement of any particular work, only that Texaco must have infringed some of their works given the low number of copies reported by the company to the CCC. Judge Leval's decision to let the case proceed on plaintiffs' probability theory was path-breaking.

service with its much lower administrative costs (but higher fees). That goal would be thwarted if corporations believed they could subscribe to the transactional service, underreport the actual number of copies made, and then allege fair use if caught. Texaco denied underreporting and also took the position that any unreported copying was privileged as a fair use under section 107 of the Copyright Act.[15]

The case was assigned to then-district-judge Pierre N. Leval, no stranger to fair use disputes.[16] In order to avoid "untoward discovery expenses with respect to largely duplicative matters," the parties entered into a stipulation by which Judge Leval would first try Texaco's fair use claim, temporarily bypassing a host of other defenses the company had raised, such as the publishers' possible lack of copyright transfers from journal authors.[17] In the stipulation, the parties also agreed to use unreported copies of articles from one journal made by a randomly picked scientist as indicative of what would be found in the files of the approximately 500 other scientists employed by Texaco.[18]

The journal selected was *Catalysis*, published monthly by plaintiff Academic Press. "Catalysis" as a field concerns "the change in the rate of a chemical reaction brought about by often small amounts of a substance that is unchanged chemically at the end of the reaction."[19] The randomly picked scientist was Dr. Donald Chickering II, employed by Texaco's Beacon, New York facility as a chemical engineer specializing in

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[15] *Texaco*, 802 F. Supp. at 25 n.23; 17 U.S.C. § 107 (1976 & Supp. V 1993).

[16] Judge Leval, who now sits on the Second Circuit, has presided over a number of fair use cases and written articles on the law in this area. *See e.g.*, New Era Publications Int'l ApS v. Henry Holt & Co., 695 F. Supp. 1493 (S.D.N.Y. 1988), *aff'd on other grounds*, 873 F.2d 576 (2d Cir.), *petition for reh'g en banc denied*, 884 F.2d 659 (2d Cir. 1989), *cert. denied*, 493 U.S. 1094 (1990); Craft v. Kobler, 667 F. Supp. 120 (S.D.N.Y. 1987); Salinger v. Random House, Inc., 650 F. Supp. 413 (S.D.N.Y. 1986), *rev'd*, 811 F.2d 90 (2d Cir.), *cert. denied*, 484 U.S. 890 (1987). *See also* Pierre N. Leval, Campbell v. Acuff-Rose: *Justice Souter's Rescue of Fair Use*, 13 CARDOZO A. & E. L.J. 19 (1994); Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105 (1990) [hereinafter *"Fair Use Standard"*]; Pierre N. Leval, *Fair Use or Foul? The Nineteenth Donald C. Brace Lecture*, 36 J. COPYRIGHT SOC'Y 167 (1989).

[17] *Texaco*, 802 F. Supp. at 5, n.1; Procedural and Scheduling Stipulation and Order Governing the Fair Use Trial, entered July 26, 1990.

[18] *Texaco*, 802 F. Supp. at 5.

[19] *Id.* (*quoting* WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY 350 (1976)).

catalysts and catalysis.[20]

Academic Press had registered with the CCC.[21] It also offered back issues and reprints of *Catalysis* for sale.[22] Texaco's Beacon facility had purchased one subscription to *Catalysis* until 1983, when it doubled the number to two.[23] In 1988, the number of subscriptions was increased to three.[24] Chickering did not have his own subscription, reading instead one of Texaco's copies when it was circulated to employees who had requested placement on a circulation list.[25] Whenever he wanted a copy of an article appearing in *Catalysis*, Texaco made one for him.[26] No payments were made to the CCC nor was authorization otherwise obtained.

II. THE DISTRICT COURT OPINION

The case was tried as a bench trial on papers submitted by the parties and was treated by Judge Leval as a test case. This was the manner in which the plaintiffs brought it and which, by virtue of the stipulation, defendants agreed to try it.[27] The purpose of the stipulation was thus not to limit the case to the randomly selected facts, but to use those facts as practices representative of Texaco's copying practices. The stipulated evidence showed that Chickering copied eight articles in their entirety from *Catalysis*.[28] Chickering became aware of six of the articles through circulation to him of the original journal issue in which the articles appeared. He became aware of the other two by seeing references to them in another article.[29] Of the articles copied, Chickering used only three in his research.[30]

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[20] *Id.*
[21] *Id.* at 7.
[22] *Id.*
[23] *Id.*
[24] *Texaco*, 802 F. Supp. at 7.
[25] *Id.* at 6.
[26] *Id.*
[27] *Id.* at 5 n.1.
[28] *Id.* at 6 n.2.
[29] *Texaco*, 37 F.3d at 884.
[30] *Id.*

A. *The First Fair Use Factor: The Purpose and Character of the Use*

The first statutory fair use factor requires courts to examine "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes."[31] In a comprehensive analysis of the fair use doctrine issued before the Supreme Court's 1994 opinion in *Campbell v. Acuff-Rose Music, Inc.*,[32] but anticipating that decision, Judge Leval recited language from the Court's 1984 decision in *Sony Corp. of America, Inc. v. Universal City Studios, Inc.*[33] *Sony* was an atypical fair use case: litigation brought by motion picture companies against the manufacturer of the "Betamax" videotape recorder for contributory infringement. While *Sony* referred to presumptions for commercial as opposed to noncommercial uses, Judge Leval added that the *Sony* Court did not "overturn the preexisting concept that productive or transformative uses were favored over nonproductive, merely superseding copies."[34] Reviewing the caselaw subsequent to *Sony*, Judge Leval found what he characterized as a "two-track pattern of interpretation" of the first fair use factor:

> Secondary users have succeeded in winning the first factor by reason of either (1) transformative (or productive) nonsuperseding use of the original, or (2) noncommercial use, generally for a socially beneficial or widely accepted purpose. Where courts have considered transformative, non-superseding secondary uses of the type that were favored in the historical development of fair use, they have attached little importance to the presence of profit motivation.[35]

Transformative or productive uses are generally uses by a second author of portions of a first author's work in the creation of new work which will itself promote the progress of science, thereby benefitting the public. Judge Leval correctly found that Texaco's mechanical copying of the entirety of the journal articles was neither transformative nor productive, but instead copying that superseded the original. Such copying

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[31] 17 U.S.C. § 107(1) (1976 & Supp. V 1981).
[32] 114 S. Ct. 1164 (1994).
[33] 464 U.S. 417 (1984).
[34] *Texaco*, 802 F. Supp. at 12.
[35] *Id.*

"contributes nothing new or different to the original copyrighted work. . . . This is the type of superseding copying that has been disfavored since the earliest discussions of the doctrine . . . ."[36]

Turning to the issue of whether Texaco's copying was for commercial or noncommercial purposes, Judge Leval found that Chickering's copying was not for "personal use" as Texaco alleged, but instead for "research pursuant to Chickering's employment for the benefit of his employer, Texaco."[37] Judge Leval rejected Texaco's fatuous assertion that its copying "should be considered comparable to that in *Williams & Wilkins v. United States*—copying done by scientists for the purpose of advancing science, rather than for commercial gain."[38] *Williams & Wilkins*, unlike *Texaco*, involved photocopying done by the National Institutes of Health and the National Library of Medicine for the benefit of their own research purposes. Distinguishing *Williams & Wilkins*, Judge Leval concluded that in Texaco's case "the research is being conducted for commercial gain. Its purpose is to create new products and processes for Texaco that will improve its compet-

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[36] *Id.* at 13. Judge Leval rejected Texaco's argument that its copying was productive because its alleged purpose was "to advance scientific discovery," *id.*, finding that "productive" as used in the caselaw means use of the original to create a new work, which Texaco had not done, *id.* at 14. He further rejected Texaco's argument that its use was transformative "because it was important for scientists like Chickering to work with a photocopy and *not* with the original." *Id.* Oddly, though, he qualified this rejection in the following statement: "[I]f the original were copied onto plastic paper so that it could be used in a wet environment, onto metal so that it would resist extreme heat, onto durable archival paper to prevent deterioration, or onto microfilm to conserve space, this might be a persuasive transformative use." This qualification though, conflicts with the nature of transformative use. *See* Leval, *Fair Use Standard*, *supra* note 16, at 1111. On appeal, Judge Newman got the issue right when he explained that:

> Texaco's photocopying merely transforms *the material object* embodying the intangible article that is the copyrighted original work. *See* 17 U.S.C. §§ 101, 102 . . . . Texaco's making of copies cannot properly be regarded as a transformative use of the copyrighted material.

Texaco, 37 F.3d at 891.

Finally, Judge Leval correctly rejected Texaco's rather ludicrous argument that its use should be favorably weighed under the first fair use factor because the principal purpose of that use was, allegedly, "to state reported facts accurately." 802 F. Supp. at 15. As Judge Leval observed, Chickering copied the entire article, often before he had even read it.

[37] *Texaco*, 802 F. Supp. at 6.

[38] *Id.* at 15.

itiveness and profitability."[39]

B. *The Second Fair Use Factor: The Nature of the Copyrighted Work*

Although agreeing with the plaintiff-publishers that "[c]opyright protection is vitally necessary to the dissemination of scientific articles of the sort that are at issue,"[40] Judge Leval also noted that courts have routinely held that in evaluating the second factor "the scope of fair use is greater with respect to factual than nonfactual works."[41] In a rare analysis of this statement, Judge Leval questioned whether it

> may be nothing more than the logical consequence of two other principles: First, that facts are not subject to copyright ownership, . . . and second . . . that quotation when done for the purpose of reporting facts accurately has a high claim for recognition as a favored purpose under the first fair use factor.[42]

In any event, Judge Leval concluded that the material copied by Texaco—reports on scientific experimental research—was "essentially factual in nature," and he therefore weighed the second factor in Texaco's favor.[43]

C. *The Third Factor: The Amount and Substantiality of the Material Copied*

Texaco had copied the entirety of the articles and the suit involved infringement of individual articles and not the journals. Yet, Texaco argued that in evaluating the extent of its copying under the third factor, the journal issue should be the yardstick because plaintiff Academic Press only registered the issue, not the individual articles.[44] Judge Leval rightly rejected this attempt to tie copyright registration practices to the

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[39] *Id.* at 16.

[40] *Id.* Importantly, this observation was not dependent upon authors being compensated, with Judge Leval noting that "copyright protection is essential to finance the publications that distribute them," *id.*, publications that might have a small subscription base.

[41] *Id.*, quoting New Era Publications Int'l ApS v. Carol Publishing Group, 904 F.2d 152, 157 (2d Cir.), *cert. denied*, 111 S.Ct. 297 (1990).

[42] *Id.* at 17. *See* criticism of the statement in PATRY, *supra* note 6, at 506-07.

[43] *Texaco*, 802 F. Supp. at 17.

[44] *Id.*

fair use analysis, weighing the third factor in the plaintiffs' favor.[45]

D. *The Fourth Factor: The Effect of the Use on the Potential Market*

With the fourth factor, it was the publishers' turn to argue (and with apparent success) the relevance of the journal issue as a whole. The publishers asserted that but for its unauthorized photocopying, Texaco would have been forced to purchase additional subscriptions or back issues. If Texaco wanted the individual articles, the publishers asserted that Texaco could order photocopies from licensed document delivery services, obtain a license from the publisher or pay for the copies through the CCC.[46] In rebuttal, Texaco argued that Academic Press would not receive substantial additional revenues if it ceased making unauthorized photocopies because what its scientists desire is a photocopy of a particular article, not a back issue of the journal in which it appeared. Texaco also noted that Academic Press only makes reprints available with a minimum order of 100 copies, an amount that in most cases made acquiring reprints impractical.[47]

Even accepting Texaco's argument that it would not vastly increase the number of subscriptions it took if it stopped its unauthorized photocopying, Judge Leval held that the number would, nevertheless, increase somewhat. He also noted that Texaco had not contradicted the probability that its scientists would place orders with document delivery services which would in turn pay a royalty to the publishers.[48] He therefore

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[45] *Id.*

[46] *Id.* at 18.

[47] *Id.* at 18-19. Texaco also made the plainly absurd argument that the fact that the plaintiffs' revenues had been steadily growing showed that copying did no harm to the market and perhaps indicated a greedy motive since authors of scientific, technical and medical journals rarely are paid. *Id.* at 19, 20, 26, 27. Judge Leval rightly condemned Texaco's argument as a "demagogic effort to undermine the publishers' rights by tarring them as wealthy profiteers [that] carries no force in copyright analysis, which does not begrudge copyright profits," *id.* at 27, adding: "It is an odd argument, furthermore, to be made by an oil company that reported over $2.4 billion net income for fiscal 1989 on revenues of over $32 billion." *Id.* at 27 n.25.

[48] *Id.* at 19.

concluded that "plaintiffs have powerfully demonstrated entitlement to prevail as to the fourth factor."[49]

Judge Leval's greatest contribution to analysis of the fourth factor may have been his careful and prescient interpretation of the then often-quoted statement from *Harper & Row, Publishers, Inc. v. Nation Enterprises*[50] that the market factor is "the single most important element" of fair use. As Judge Leval observed, the context of the statement is important, because the *Harper & Row* Court actually ascribed importance to all four factors.[51] Judge Leval's views were subsequently borne out by the Supreme Court in *Campbell v. Acuff-Rose Music, Inc.*,[52] which agreed with his treatment of fair use as involving a weighing of all four factors, rather than as a doctrine with one superfactor, the fourth.[53]

E. *Other Factors*

Another important part of Judge Leval's opinion is a section entitled "Equitable Rule of Reason."[54] This section discusses a number of arguments made by Texaco, which in Judge Leval's view, did not "fit neatly into the four-factor analysis."[55] This section of the opinion focuses principally on Texaco's reliance on the Supreme Court's opinion in *Sony Corp. of America, Inc. v. Universal City Studios, Inc.*,[56] and the Court of Claims's opinion in *Williams & Wilkins Co. v. United States*.[57]

Judge Leval began generously by stating that "*Sony* and *Williams & Wilkins* do not purport to define the heartland of fair use. To the contrary, they present themselves as defining

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[49] *Texaco*, 802 F. Supp. at 18.

[50] 471 U.S. 539, 566 (1985).

[51] *Texaco*, 802 F. Supp. at 21.

[52] 114 S. Ct. 1164, 1171 (1994).

[53] On appeal, Judge Newman made this point explicit, writing that *Campbell* had effectively disavowed *Harper & Row*'s statement, by "[a]pparently abandoning the idea that any factor enjoys primacy . . . ." *Texaco*, 37 F.3d at 894.

[54] *Texaco*, 802 F. Supp. at 21-27.

[55] *Id.* at 22.

[56] 464 U.S. 417 (1984).

[57] 487 F.2d 1345 (Ct. Cl. 1973), *aff'd per curiam by an equally divided Court*, 420 U.S. 376 (1975).

its remote extremities."[58] Unlike the private, noncommercial time-shifting of free broadcast television programming involved in *Sony*, Texaco's copying was done for a "competitive commercial advantage" and involved material which was licensed for a fee.[59]

Judge Leval's lengthy analysis of *Williams & Wilkins*[60] is especially enlightening.[61] Two points in particular should be noted. First, unlike the nonprofit copying by the government scientists in *Williams & Wilkins*—done to advance medicine and medical research generally—Texaco's copying was for profit. Second, at the time of the *Williams & Wilkins* decision, the CCC had not been established. With the availability of CCC licenses, authorized document delivery services and other private license agreements, the Court of Claims's concerns about high transaction costs and the injury to scientific research from a ban on photocopying were no longer present.[62] Loss of licensing fees from the CCC was thus properly considered harm to the copyright owner's market, an issue that would later divide the *Texaco* court of appeals.[63]

F. *Section 108*

Finally, Texaco argued that it was "entitled to prevail either directly under Section 108 of the Copyright Act . . . or on a penumbra of Section 108 reflected in analysis of Section 107."[64] Judge Leval correctly held that "there is no merit to these arguments."[65] Texaco's library was not covered by section 108, and even assuming it were, its copying was performed for commercial purposes, contrary to that section, and

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[58] *Texaco*, 802 F. Supp. at 22.

[59] *Id.* Ever-ready with far-fetched arguments, Texaco asserted that having purchased a subscription to *Catalysis*, it had been "invited by the publisher" to read it and make photocopies to facilitate such reading. *Id.*

[60] *Id.* at 22-26.

[61] He also noted that *Williams & Wilkins* was not precedent in the Second Circuit and had been severely criticized by commentators, including this author. *Id.* at 22-23 n.20.

[62] *Id.* at 25-26. Judge Leval also rejected Texaco's claim that the transactional service was unreasonably burdensome. *Id.*

[63] *See infra* notes 103-112 and accompanying text.

[64] *Texaco*, 802 F. Supp. at 27.

[65] *Id.*

more than one copy was made at a time, again contrary to that section.

Here too, Judge Leval's opinion is extremely well-reasoned, persuasive and remarkably prescient on how the Supreme Court would subsequently interpret issues concerning productive and commercial uses and the (lack of) primacy of the fourth factor.

III. THE COURT OF APPEALS OPINION

On appeal, the Second Circuit affirmed in a two-to-one decision. Agreeing with the district court, Judge Newman's majority opinion weighed the first, third and fourth factors in favor of the copyright owners, and the second in favor of Texaco. The majority opinion also agreed with the district court's analysis of other equitable considerations.[66]

A. *The Majority Opinion*

While it affirmed the district court's decision, the majority opinion of Judges Newman[67] and Winter originally took a much narrower view of the issues sub judice. It will be recalled that the parties' stipulated evidentiary use of eight particular articles by Texaco research scientist Chickering from *Catalysis* was not intended to limit the case to those randomly selected facts, but rather to treat those facts as representative of Texaco's overall copying practices. The use of representative facts was also consistent with plaintiffs' treatment of the *Texaco* litigation as a test case brought, in part, to obtain a judgment that would encourage corporations to sign up with the CCC. In particular, the publishers wanted to press corporations to subscribe to the annualized license service rather than to subscribe to the transactional license service as Texaco had. It is unclear whether this objective was achieved, since Judge

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[66] The original opinion, reported at 37 F.3d 881, *amended on denial of rehearing* on December 23, 1994, was subsequently replaced with an amended opinion and amended dissent issued on July 17, 1995, reported at 60 F.3d 913. This amended opinion is broader in its holding than the original opinion. See *infra* text accompanying notes 69-71.

[67] Chief Judge Newman was not on the panel when argument was heard. He replaced District Judge Charles Stewart upon Judge Stewart's subsequent illness.

Newman explicitly rejected the parties' attempt to treat the case

> as if it concerns the broad issue of whether photocopying of scientific articles is fair use, or at least the only slightly more limited issue of whether photocopying of such articles is fair use when undertaken by a research scientist engaged in his own research. Such broad issues are not before us.[68]

In its original October 28, 1994 opinion, the court of appeals limited the case to the eight articles that formed the basis of the stipulation,[69] or more precisely, to "the archival photocopying revealed by the record—the precise copying that the parties stipulated should be the basis for the District Court's decision now on appeal and for which licenses are in fact available."[70] In other words, the issue resolved was only whether the unreported photocopying of eight particular articles from a particular journal by a particular Texaco scientist for which a CCC license was available was fair use. Yet, the trial stipulation permitting the fair use issues to be decided solely on the photocopying practices of a randomly chosen Texaco researcher was made not only to avoid unnecessary discovery and trial time, but also because there was nothing unique about any individual researcher's practices or the articles he photocopied. Moreover, litigating myriad repetitive fact patterns would be economically unrealistic: even using limited facts, the *Texaco* case took a decade from filing to appellate decision.

In an amended opinion issued on July 17, 1995, however, the majority dramatically altered the scope of its holding, properly treating the copying by the randomly selected researcher as representative of all of Texaco's scientists:

> Rather, we consider whether Texaco's photocopying by 400 or 500 scientists, as represented by Chickering's example, is a fair use. This includes the question whether such institutional, systematic copying increases the number of copies available to scientists while avoiding the necessity of paying for license fees or additional subscriptions. . . . Our concern is whether the copying of these eight

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[68] *Texaco*, 60 F.3d at 916. The original opinion referred to a research scientist "employed at a for-profit corporation." *Texaco*, 37 F.3d at 884.

[69] *Texaco*, 37 F.3d at 884.

[70] *Id.* at 899. The case was limited to the individual articles rather than the periodicals in which they appeared. *Id.* at 886.

articles, as representative of the systematic copying that Texaco encouraged, was properly determined not to be a fair use.[71]

At the same time, in a passage that reads like a carefully negotiated compromise among different members of the court of appeals en banc, the amended opinion adds:

> We do not deal with the question of copying by an individual, for personal use in research or otherwise (not for resale), recognizing that under the fair use doctrine or the de minimis doctrine, such a practice by an individual might well not constitute an infringement. In other words, our opinion does not decide the case that would arise if Chickering were a professor or an independent scientist engaged in copying and creating files for independent research, as opposed to being employed in the pursuit of his research on the institution's behalf.[72]

The majority began its analysis with a discussion of whether fair use should be available at all as a defense in cases involving mere mechanical reproduction, such as photocopying:

> [I]f the issue were open, we would seriously question whether the fair use analysis that has developed with respect to works of authorship alleged to use portions of copyrighted material is precisely applicable to copies produced by mechanical means.[73]

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[71] *Texaco*, 60 F.3d at 916. This alteration in the scope of the holding is also apparent in a number of other revisions made in the opinion. For example the second background paragraph at page 883 of the original opinion read in relevant part:

> To avoid extended discovery and narrow the scope of the one-issue trial, the parties made a significant stipulation, providing that the fair use trial would focus exclusively on the photocopying of particular journal articles by one Texaco researcher.

Texaco, 37 F.3d at 883.

The amended opinion replaces this with the following:

> Although Texaco employs 400 to 500 research scientists, of whom all or most presumably photocopy scientific journal articles to support their Texaco research, the parties stipulated—in order to spare the enormous expense of exploring the photocopying practices of each of them—that one scientist would be chosen at random as the representative of the entire group.

Texaco, 60 F.3d at 915. This amended opinion completely reverses the original opinion's limitation to Chickering's particular copying and instead (properly) treats his copying as representative of all the Texaco scientists' copying. *Compare* 37 F.3d at 899 ("Our ruling is confined to the archival photocopying revealed by the record.") *with* 60 F.3d at 931 ("Our ruling is confined to the institutional, systematic, archival multiplication of copies revealed by the record . . . .").

[72] *Texaco*, 37 F.3d at 884.

[73] *Id.* at 885. This issue was also relevant to the Court of Claims's decision in

The majority, however, correctly believed that the issue was not open due to the Supreme Court's *Sony* decision, which permitted at least one form of mechanical reproduction, home video time-shifting of free broadcast television programming.[74] The court therefore applied the traditional four-factor fair use analysis to the photocopying issue before it.[75]

1. The First Factor: The Purpose and Character of the Use

Consistent with its approach to the case, the majority opinion delved at great length into the nature of and circumstances surrounding Texaco scientist Chickering's copying of the eight articles from *Catalysis*. Chickering came across six of the articles when the original journal issue was circulated to him; he became aware of the other two through citations in other publications. Chickering had the eight articles photocopied "at least initially, for the same basic purpose that one would normally seek to obtain the original—to have it available on his shelf for ready reference if and when he needed to look at it."[76] As he explained, the copies were made for his "personal convenience."[77] Judge Newman characterized this photocopying as "'archival'—*i.e.*, done for the primary purpose of providing Chickering with his own personal copy of each article without Texaco's having to purchase another original journal."[78] Under the *Campbell* decision, this use merely su-

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Williams & Wilkins Co. v. United States, 487 F.2d 1345 (Cl. Ct. 1973), *aff'd per curiam by an equally divided Court*, 420 U.S. 376 (1975). In a different part of its opinion, the *Texaco* majority rejected the company's reliance on photocopying as "reasonable and customary," agreeing with Judge Leval that "[t]o the extent the copying practice was 'reasonable' in 1973, it has ceased to be 'reasonable' as the reasons that justified it before [unavailability of photocopy licensing] have ceased to exist." 820 F. Supp. at 25 (quoted in *Texaco*, 37 F.3d at 892).

[74] Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984).

[75] *Texaco*, 37 F.3d at 885-86.

[76] *Id.* at 887.

[77] *Id.*

[78] *Id.* at 887-88. Chickering made use in his research of five of the eight articles he had photocopied. Because researchers of all types (including attorneys) may not know in advance whether they will actually make use of an article—especially before photocopying it to read at a later time—any determination of whether a use is fair based on the ultimate use made of the article photocopied may well prove impossible.

persedes the original and "tilts the first fair use factor against Texaco."[79]

The intervention of the *Campbell* opinion between the opinions of the district court and court of appeals also influenced the court of appeals's treatment of the commercial nature of the copying. Perceptively recognizing that *Campbell* had rejected interpretations of *Sony* as erecting a presumption against commercial uses,[80] Judge Newman observed that, instead, the commercial nature of the defendant's use simply "tends to weigh against a finding of fair use."[81] Texaco argued, however, that its use was not commercial and that the district court had inappropriately focused on the character of the user rather than on the nature of the use.[82] While agreeing that a court's focus should be on the use rather than the user, the majority did not consider Texaco's status as a for-profit company irrelevant.[83] Discussing whether Texaco's use

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Regarding Texaco's claim that Chickering was engaged in "research" within the meaning of the preamble to § 107, Judge Newman wrote:

> Chickering has not used portions of articles from *Catalysis* in his own published piece of research, nor has he had to duplicate some portion of copyrighted material directly in the course of conducting an experiment or investigation. Rather, entire articles were copied as an intermediate step that might abet Chickering's research.

[79] *Id. But cf.*, 60 F.3d at 919-20.

[80] *Texaco*, 37 F.3d at 889. Judge Newman stated:

> Indeed, *Campbell* warns against "elevat[ing] . . . to a per se rule" *Sony*'s language about a presumption against fair use arising from commercial use. . . . *Campbell* discards that language in favor of a more subtle, sophisticated approach, which recognizes that "the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." . . . The Court states that "the commercial or nonprofit educational purpose of a work is only one element of the first factor enquiry," . . . and points out that "[i]f, indeed, commerciality carried presumptive force against a finding of fairness, the presumption would swallow nearly all of the illustrative uses listed in the preamble paragraph of § 107 . . . ."

Id. (citations omitted).

[81] *Id.* (quoting *Campbell*, 114 S. Ct. at 1174).

[82] *Id.* at 888.

[83] *Id.* at 890 n.8 (Citing WILLIAM PATRY, THE FAIR USE PRIVILEGE IN COPYRIGHT LAW 416-17 (1st ed. 1985) for the principle that "the nature of [the] person or entity engaging in [the] use affects the character of the use" and REPORT OF THE REGISTER OF COPYRIGHTS: LIBRARY REPRODUCTION OF COPYRIGHTED WORKS (17 U.S.C. § 108) 85 (1983) for its conclusion that "though a scientist in a for-profit firm and a university student may engage in the same photocopying of scholarly articles to facilitate their research, 'the copyright consequences are different: [the scientist's] copying is of a clearly commercial nature, and less likely to be fair

was commercial, Judge Newman concluded:

> The commercial/nonprofit dichotomy concerns the unfairness that arises when a secondary user makes unauthorized use of copyrighted material to capture significant revenues as a direct consequence of copying the original work.[84]

Consistent with these principles, courts will not sustain a claimed defense of fair use when the secondary use can fairly be characterized as a form of "commercial exploitation," i.e., when the copier directly and exclusively acquires conspicuous financial reward from its use of copyrighted material.

While an unauthorized "commercial exploiter" of another's copyrighted material should indeed have difficulty establishing a fair use defense, if the above-quoted passage is meant to act as a more general definition of commercial use, it appears to be restrictive. Contrary to the majority's formulation, "commercial use" may encompass situations where the defendant's gain from use of the copyrighted material does not result in significant revenues and the revenues received from that use are indirect or speculative. For example, an impermissible use of excerpts of a politician's unpublished letters in a lengthy, for-profit history of an era may not appreciably, by itself, gain the publisher significant revenues, but the use would nevertheless be commercial.[85]

More to the point, the photocopying at issue was done to facilitate Texaco's development of products for commercial exploitation. Judge Newman was well aware of this and its relationship with Texaco's for-profit status (i.e., the nature of the user rather than the use):

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use.'").

[84] *Texaco*, 37 F.3d at 890. Here, Judge Newman cited cases to support the conclusion that

> courts will not sustain a claimed defense of fair use when the secondary use can fairly be characterized as a form of "commercial exploitation," *i.e.*, when the copier directly and exclusively acquires conspicuous financial rewards from its use of the copyrighted material, . . . [and creating a sliding scale by which] [t]he greater the private economic rewards reaped by the secondary user (to the exclusion of broader public benefits), the more likely the first factor will favor the copyright holder and the less likely the use will be considered fair.

Id. (citations omitted).

[85] This conclusion does not rest on the publisher's for-profit status. The result would be the same if the publisher was a nonprofit entity.

> [W]e need not ignore the for-profit nature of Texaco's enterprise, especially since we can confidently conclude that Texaco reaps at least some indirect economic advantage from its photocopying. As the publishers emphasize, Texaco's photocopying for Chickering could be regarded simply as another "factor of production" utilized in Texaco's efforts to develop profitable products. Conceptualized in this way, it is not obvious why it is fair for Texaco to avoid having to pay at least some price to copyright holders for the right to photocopy the original articles.[86]

Texaco also argued that Judge Leval had placed "undue emphasis" on whether its use was "transformative."[87] Unfortunately for Texaco, the "transformative use" concept developed by Judge Leval[88] was warmly endorsed by the Supreme Court in *Campbell*, a point noted by Judge Newman.[89] As an apparent alternative argument, Texaco contended that its photocopying was transformative because it converted the original journal article "into a form more easily used in a laboratory."[90] The majority rightly rejected this absurd argument,[91] which entirely misses the nature of the necessary transformation: the creation of a new work. As Judge Newman pointed out, Texaco merely transformed the material object in which the work was embodied, not the work itself.[92] Under Texaco's theory, all copying—or at least all mechanical copying of entire works—would be transformative, rendering the concept either meaningless or more readily available to those who least fit its purpose.[93]

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[86] *Texaco*, 37 F.3d. at 890-91.

[87] *Id.* at 888.

[88] *See* Leval, *Fair Use Standard*, *supra* note 16, at 1111.

[89] *Texaco*, 37 F.3d at 891.

[90] *Id.*

[91] *Id.*

[92] *Id.*

[93] At the same time, Judge Newman stated, "we should not overlook the significant independent value that can stem from conversion of original journal articles into a format different from their normal appearance." *Id.* The value of such conversion accrues only to the user, however, and not to society, and thus should not weigh in the defendant's favor in the fair use analysis.

2. The Second Factor: The Nature of the Copyrighted Work

Agreeing with Judge Leval, the Second Circuit weighed the nature of the work copied in Texaco's favor. The court held that while the writing of the articles undoubtedly entailed creativity, their predominantly factual nature was the more important consideration.[94]

3. The Third Factor: Amount and Substantiality of the Material Used

As it had in the district court, Texaco argued on appeal that the proper yardstick for evaluation of the third factor was the issue or volume of *Catalysis* rather than the individual article. The court of appeals noted, however, that the litigation involved the individual articles and not the issue or volume. Thus, following Judge Leval, the court of appeals properly rejected Texaco's argument.[95] Judge Newman also explained that the third factor permits the court to "gain insight into the purpose and character of the use as we consider whether the quantity of the material used was 'reasonable in relation to the purpose of the copying,'"[96] thereby drawing attention to the interrelationship of the third and first factors.

4. The Fourth Factor: Effect of the Use on the Potential Market

Two months after its initial opinion was published, the court of appeals, in denying Texaco's petition for rehearing, made a number of changes in its original opinion,[97] all but one of which concerned the fourth factor in fair use analysis. These revisions reflect the far-reaching changes in the fourth-factor analysis made by the Supreme Court's *Campbell* decision and considerably strengthen the Second Circuit's opinion.

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[94] *Id.* at 893.

[95] *Texaco*, 37 F.3d at 894.

[96] *Id.* (citing Campbell v. Acuff-Rose Music, Inc., 114 S. Ct. 1164, 1175 (1994)).

[97] The Second Circuit issued its opinion on October 28, 1994. On December 23, 1994, rehearing was denied.

In particular, the revised opinion perceptively notes that the Supreme Court downplayed the importance it had previously ascribed to the fourth factor:

> Prior to *Campbell*, the Supreme Court had characterized the fourth factor as "the single most important element of fair use," *Harper & Row*, 471 U.S. at 566. . . . However, *Campbell*'s discussion of the fourth factor conspicuously omits this phrasing. Apparently abandoning the idea that any factor enjoys primacy, *Campbell* instructs that "[a]ll [four factors] are to be explored, and the results weighed together, in light of the purposes of copyright."[98]

Hopefully, other courts will adopt Judge Newman's careful reading of *Campbell* and return to the flexible evaluation of fair use that had been the hallmark before its statutory recognition in section 107 of the 1976 Act mistakenly led some to conclude that Congress intended to introduce rigidity into what is still a common law doctrine.[99]

In evaluating the fourth factor, Judge Newman observed that since the works sued upon were individual journal articles rather than the journal as a collective work, the relevant potential harm was to the market for the articles rather than for the journal.[100] So defined, proving potential harm to the market became somewhat problematic for the plaintiffs since there is no traditional market for sales of individual scientific, technical and medical articles, and since most authors of those articles do not seek or receive compensation for their writings.[101]

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[98] *Texaco*, 37 F.3d at 894 (quoting Campbell, 114 S. Ct. at 1171) (citations omitted).

[99] *See* Judge Leval's masterful discussion of the post-1976 Act period in Leval, Campbell v. Acuff-Rose: *Justice Souter's Rescue of Fair Use*, *supra* note 16.

[100] *Texaco*, 37 F.3d at 894-96. By contrast, harm to the market for the journal might involve loss of per-issue sales, back volumes, or loss of multiple subscriptions. Judge Newman did add, though, that

> Were the publishers able to demonstrate that Texaco's type of photocopying, if widespread, would impair the marketability of journals, then they might have a strong claim under the fourth factor. Likewise, were Texaco able to demonstrate that its type of photocopying, even if widespread, would have virtually no effect on the marketability of journals, then it might have a strong claim under this fourth factor.

Id. at 896.

[101] *Id.* at 895. The authors, however, typically assign their copyright to the journal publisher so that any lack of payment to the author from reprints or licensing revenue is arguably beside the point. *See also* discussion of this issue in *Texaco*, 802 F. Supp. at 26-27.

These facts heightened the significance of the potential loss of licensing revenues through the CCC. Judge Leval had found that if Texaco's use was not fair, publishing revenues would increase significantly as Texaco would be forced to negotiate directly with the publishers, obtain copies from document delivery services which pay royalties to publishers, or acquire a license from the CCC. Texaco argued that Judge Leval's reasoning was circular since if its use was fair, it need not pay licensing fees, an argument picked up by Judge Jacobs in his dissent.[102] Judge Newman effectively answered the circularity argument in the following passage:

> [I]t is not unsound to conclude that the right to seek payment for a particular use tends to become legally cognizable under the fourth fair use factor when the means for paying for such a use is made easier. This notion is not inherently troubling: it is sensible that a particular unauthorized use should be considered "more fair" when there is no ready market or means to pay for the use, while such an unauthorized use should be considered "less fair" when there is a ready market or means to pay for the use. The vice of circular reasoning arises only if the availability of payment is conclusive against fair use.[103]

While sensible as applied to the facts in *Texaco*, this passage may go too far in making its point if it is interpreted as a categorical statement about the availability of the fair use defense. There is no reason why a use should necessarily be more likely to be fair if there is no ready licensing system: the copyright owner may have deliberately chosen not to set up such a system, preferring instead to negotiate individually with users.[104] In the context of the case before it, however, the majority aptly noted that the existence of the CCC rendered consideration of lost licensing revenues an appropriate consideration,[105] a victory for the plaintiffs. This conclusion was fortified by two citations to Congress, the first to section

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[102] *Id.* at 904 (Jacobs, J., dissenting).

[103] *Id.* at 898.

[104] Because this statement was dictum and the *Texaco* majority carefully confined its holding to the facts before it, it would be inappropriate to apply the statement to other facts and media, such as the lack of licenses for on-line computer uses.

[105] *Texaco*, 37 F.3d. at 898-99. At the same time, the majority stated it did not decide "how far the fair use balance would be resolved if a photocopying license for *Catalysis* articles were not currently available." *Id.* at 899.

108 and its restrictions on library photocopying and the second to statements in Senate Judiciary Committee reports encouraging development of the CCC.[106] Once the court concluded that loss of licensing revenues was a relevant consideration under the fourth factor, the weighing of that factor against Texaco was preordained.

B. *Judge Jacobs's Dissent*

In a spirited dissent, Judge Jacobs disagreed with the majority's treatment of the first and fourth factors, concluding that Texaco's use was fair. Regarding the first factor, Judge Jacobs agreed with Texaco that Chickering's activities constituted "research" within the ambit of the preamble to section 107.[107] At the same time, relying heavily on the Court of Claims's 1973 decision in *Williams & Wilkins*—overruled by Congress in the 1976 Act—Judge Jacobs stated that a use that is "reasonable and customary" is fair use, and opined that Chickering's use was reasonable and customary,[108] as well as transformative.[109] Regarding the fourth factor, Judge Jacobs disagreed that the CCC constituted a workable method for licensing institutional users,[110] adding that even if it were workable, the availability of a license should not weigh against Texaco since if its use was fair no license was required.[111]

CONCLUSION AND THE PARTIES' SETTLEMENT

If the principal goal of the publisher-plaintiffs in the *Texaco* litigation was securing an authoritative opinion that all corporate photocopying of scientific, technical and medical journals was not fair use, they may have failed. At the same time, the court of appeals's amended July 17, 1995 opinion, with its broader holding on Texaco's systematic, institutional copying, is likely to encourage more corporations to subscribe to the CCC's annualized license service. Moreover, if one objec-

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[106] *Id.* at 899.
[107] *Id.* at 901 (Jacobs, J., dissenting).
[108] *Id.* at 902.
[109] *Id.* at 903.
[110] *Id.* at 905-06.
[111] *Texaco*, 37 F.3d at 906.

tive of the plaintiffs in the *Texaco* litigation was forcing Texaco to acquire an annualized license, they were successful, albeit, quite late in the game. On May 15, 1995, while defendant's petition for certiorari and petition for rehearing en banc were pending, the parties announced a settlement. According to one press account, Texaco "conceded no wrongdoing," but agreed to pay "a seven figure settlement and retroactive licensing fee to the CCC. In addition, Texaco will enter into standard annual license agreements with the CCC during the next five years."[112] The only real mystery to the settlement is why it was not made ten years ago.

[112] 50 BNA PAT., TRADEMARK & COPYRIGHT J. 57 (May 18, 1995).