OLD LYRICS, KNOCK-OFF VIDEOS, AND COPYCAT COMIC BOOKS: THE FOURTH FAIR USE FACTOR IN U.S. COPYRIGHT LAW

I. INTRODUCTION

Harry Potter author J.K. Rowling resorted to a mighty muggle defense against the dark arts when she sued the New York Daily News for publishing excerpts from her latest novel three days before its official release date. The issues involved sit at the core of copyright law: creative expression, protection for unpublished works, and the effects of unlicensed distribution. But while the excerpts may have been unlawful, their publication no doubt added to the frenzied anticipation of fans waiting to purchase the 870-page book once it hit the stores.

Any court opinion in this case will add to the current array of beliefs regarding copyright law and “fair use.” The American legal system has long recognized that in certain situations, the fair use of artistic works does not infringe upon the rights of copyright holders. The fair use doctrine as codified in Section 107 of the U.S. Copyright Act of 1976 requires a balancing of four factors: the purpose and character of the unlicensed use, the nature of the copyrighted work, the amount and substantiality of the copying, and the effect of such copying on the copyright holder’s potential market. Courts continue to struggle with fair use, especially when confronted with a) speculative market predictions, and b) competing public and private interests in cases where acts of copying result in a net benefit to the copyright holder’s potential market, such as in the

4 For purposes of this article, there is a “net benefit” or a “benefit” to the copyright holder’s potential market if the copyright holder’s profits from sales of the copyrighted work are greater than they would have been absent the unlicensed use. This formula does not factor in the copyright holder’s lost licensing revenues because often no market for such licensing exists. However, whether any licensing market exists
Harry Potter case. The inherent difficulty in defining markets and in accurately assessing gains and losses, combined with a historical bias in favor of private property rights, has resulted in judicial uncertainty, inconsistency, and inaccuracy in applications of the fourth fair use factor to situations where the copyright holder benefits.

Despite judicial skepticism, unauthorized uses of copyrighted works have benefited rather than destroyed several major industries. Among the most notable examples are the Japanese manga (comic book) market, segments of the music industry, and television broadcasting. What follows is a discussion of each of these examples.

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6 See generally id.
Three Examples

Japanese Comic Books

Manga—an expressive medium similar to what Americans call comic books or graphic novels—account for nearly one-third of the revenue earned by the entire Japanese publishing industry. The mammoth interest in manga has spawned a subsidiary industry known as dojinshi, which consist of manga stories featuring well-known, copyrighted manga characters written about and drawn for the most part by unauthorized authors and artists. Dojinshi—which are sold on the Internet, at conventions that attract tens of thousands of enthusiastic fans, and at a small number of major bookstores—have not been a consistent target of copyright litigation in Japan. Instead, manga authors and publishers have tolerated (and in some cases encouraged) the proliferation of dojinshi, with several manga publishers regularly advertising their

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9 Id. at 156. Dojinshi are similar to the fan fiction commonly found on the Internet. See Michelle Pauli, Fan Fiction, The GUARDIAN (London), Dec. 5, 2002, at http://www.guardian.co.uk/online/story/0,3605,853539,00.html (“In this curious literary genre that is flourishing on the net, fans of a particular book, TV series or film write their own stories using established characters and settings. Click on to http://fanfiction.net, the largest repository of fan fiction on the web, and you will find nearly 50,000 original stories written by Harry Potter addicts using Rowling’s characters.”); David Plotz, Luke Skywalker is Gay?: Fan Fiction is America’s Literature of Obsession, SLATE, Apr. 14, 2000, at http://slate.msn.com/id/80225/ (“In ‘fanfic,’ as practitioners call it, devotees of a TV show, movie, or (less often) book write stories about its characters. They chronicle the alternative adventures of Xena, warrior princess; open the X-Files that Mulder and Scully don’t dare touch; and fill in the back story to Star Wars Episode I.”); Rebecca Tushnet, Legal Fictions: Copyright, Fan Fiction, and a New Common Law, 17 Loy. L.A. Ent. L. Rev. 651 (1997); Deborah Tussey, From Fan Sites to Filesharing: Personal Use in Cyberspace, 35 Ga. L. Rev. 1129 (2001); Jessica Elliott, Copyright Fair Use and Private Ordering: Are Copyright Holders and the Copyright Law Fanatical For Fansites?, 11 J. Art & Ent. L. 329 (2001); Meredith McCordale, Note, Fan Fiction, Fandom, and Fanfare: What’s All the Fuss?, 9 B.U. J. Sci. & Tech. L. 433 (2003).
10 Mehra, supra note 7, at 156-57, 164-65; Lawrence Lessig, Copy Cats and Robotic Dogs: What Lawyers Can Learn from Comic Books, RED HERRING, Jan. 10, 2003, at http://www.herring.com/mag/issue121/5636.html (“Dojinshi conventions are among Japan’s largest mass gatherings, drawing more than 450,000 fans and 33,000 artists each year.”).
products at *dojinshi* conventions. The non-creative sections of the publishing industry (printers and binders) produce *dojinshi* and have therefore definitely prospered from *dojinshi* sales. But the mainstream *manga* products also benefit because *dojinshi* help promote the original comic book characters. The phenomenon is a prime example of how widespread copying can augment the market for copyrighted works.

**Digital Musical Sampling**

Adapting the work of one artist (usually from an earlier era) to create something new has become a common practice in the music industry, especially among rap artists. In a process known as “digital sampling,” excerpts from previously recorded works are incorporated verbatim into new songs, including the voices of the original singers. The practice expanded in the 1980s with the invention and increasing affordability of Musical

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12 Mehra, *supra* note 7, at 184.
13 *Id.*
14 Eric Prideaux, *By the People, For the People*, THE JAPAN TIMES, Mar. 23, 2003, available at http://www.japantimes.com/cgi-bin/getarticle.pl?fl20030323a2.htm (“And though their creators are mainly amateurs, the paper and printing quality of many dojinshi rivals or exceeds that of the thick, gaudy manga on pulp paper that weigh down konbini shelves from Hokkaido to Okinawa.”); Mary Kennard, *Amateur Manga Flourishing*, THE DAILY YOMIURI (Tokyo), Jan. 26, 2002, at 11 (“Production quality is extremely high. Dojinshi are usually offset-printed, with professional-level binding and high-grade paper. Print runs vary widely. Popular groups, or circles, might print as many as 5,000 of one dojinshi, while less-known circles might only print 100 copies.”).
15 Kennard, *supra* note 14 (“Dojinshi support a significant financial sector, from art supplies to printing companies to delivery services. There are about 100 small printing companies that specialize in printing just these books.”).
16 See Mehra, *supra* note 7, at 184, 191.
18 See Wilson, *supra* note 17, at 179 (citing Donald S. Passman, *ALL YOU NEED TO KNOW ABOUT THE MUSIC BUSINESS* 306 (2000)).
Instrument Digital Interface (MIDI) synthesizers. Many current performers argue that sampling benefits original artists by encouraging the purchase of the primary source.

Unauthorized sampling was at the center of a 1994 U.S. Supreme Court case, *Campbell v. Acuff-Rose Music, Inc.* The rap group 2 Live Crew used portions of an original work in a parody of Roy Orbison’s well-known hit “Pretty Woman.” In recognizing the song as a parody, the Court acknowledged that 2 Live Crew had transformed the original source in a creative fashion and therefore that the appropriation possibly qualified as an instance of fair use. However, while the Court reversed an appellate court’s finding that the newer song’s commercial purpose made the use “presumptively unfair,” it also warned the lower court against finding summary judgment in favor of 2 Live Crew because of inconclusive evidence regarding the appropriation’s negative effect on the copyright holder’s derivative markets. As to possible market benefit, the Court stated, “Judge Leval gives the example of the film producer’s appropriation of a composer’s previously unknown song that turns the song into a commercial success; the boon to the song does not make the film’s simple copying

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20 See, e.g., Passmore, supra note 17, at 839 (“Many record labels view mix tapes [composed of samples of previous recordings] as ‘a form of promotion and marketing for the [original] artist[s],’ and thus tacitly sanction the distribution of mix tapes that feature the label’s artists.”) (quoting Anita M. Samuels, New Urban Art Form, Old Copyright Problem: A Music Industry at Odds on ‘Mix Tapes,’ N.Y. Times, Nov. 4, 1996, at C8).
22 Id. at 571.
23 The concept of transformative use is discussed in Part II-B and Part IV-B, infra.
24 *Campbell*, 510 U.S. at 579-83. Furthermore, the Court restated an intolerance of unauthorized sampling that simply duplicates the original work rather than transforming it. *Id.* at 591-92 (“[W]hen a commercial use amounts to mere duplication of the entirety of an original, it clearly ‘supersede[s] the objects’ of the original and serves as a market replacement for it, making it likely that cognizable market harm to the original will occur. But when, on the contrary, the second use is transformative, market substitution is at least less certain, and market harm may not be so readily inferred.”) (citing Pierre N. Leval, Toward a Fair Use Standard, 103 Harv. L. Rev. 1105, 1125 (1990) [hereinafter Leval, Fair Use Standard]).
25 *Campbell*, 510 U.S. at 590-94.
26 Id. at 593-94.
Along with other courts, the U.S. Supreme Court failed to adequately consider the potential benefits of sampling on the market for the copyrighted work.

Television Broadcasting and Video Recorders

Television broadcasters share something in common with music companies in that technological innovations have opened the door for the widespread unauthorized copying of original works. But television differs from music and comic books in terms of how revenue is collected—that is, broadcasters sell advertising whereas the bulk of music and comic book profits comes from selling tangible products. Thus, the recording of television programs does not harm individual creators and artists (who are at the center of copyright law protections) but rather expands the potential viewing audience for both a program and the advertisements aired during it. Recognizing this benefit in *Sony Corp. of Am. v. Universal City Studios, Inc.*, the U.S. Supreme Court described the delayed watching of videotaped television shows as a “time shifting” activity protected under the fair use doctrine. This serves as an example of how electronic or digital copying enhances the market for copyrighted works.

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The three examples above are significantly different in terms of their legal and economic implications. The Japanese *manga* and *dojinshi* markets co-exist because the latter benefits the former and because there is less incentive to litigate under Japanese

27 Id. at 591 n.21 (citing Leval, *Fair Use Standard, supra* note 24, at 1124 n.84 (1990)).
copyright law than under its American counterpart. However, the opinions in cases such as Sony and Campbell reflect the inconsistency among lower courts as to how much weight to afford net market benefit from an unlicensed use. In Sony, the Court emphasized the ways that electronic or digital copying enhance the market for copyrighted material, while in Campbell it expressed skepticism over the supposed benefit of electronic manipulation—an increase in the market for a dated product. Such irregular applications of the fair use doctrine reveal judges’ differing conceptualizations of fair use and copyright law.

Legal and economic theorists who discuss fair use in terms of transaction costs suggest that users should pay fair market value to copyright holders to license their works and that narrowly defined parameters for fair use best protect the incentives of artists and authors to create. According to their incentive-based models, these scholars argue that in an environment of low or non-existent transaction costs, judicial intervention on behalf

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30 Mehra, supra note 7, at 185-86. According to Professor Mehra, there is less incentive to litigate under Japanese copyright law because of the design of the Japanese legal system. It inhibits litigation as a result of few lawyers and long delays. See id.
31 See generally supra note 5.
33 Campbell, 510 U.S. at 591-94.
of unlicensed users decreases or eliminates incentives for innovation.\textsuperscript{36} Thus, they believe that application of fair use is only appropriate where there are high transaction costs or other barriers to licensing copyrighted works.\textsuperscript{37} These theorists think that fair use should be regarded as a defense and not a limitation on a copyright holder’s exclusive rights,\textsuperscript{38} primarily because they fail to properly recognize extrinsic social and other non-economic benefits from the unlicensed use of copyrighted works.\textsuperscript{39}

Critics of this analysis rightfully note that an incentive-based model offers little guidance for those courts wanting to draw a clear line between fair and unfair use, one that maximizes the incentive to create without giving artists extraneous benefits.\textsuperscript{40} Infringement claims asserted in cases where the unlicensed use increases the copyright holder’s potential market—such as sampling and taping television shows—draw additional skepticism to this model. Economic theorists believe copyright law should preserve the right of copyright holders to choose between profiting from licensing their works and relying on uncertain economic benefits from an enhanced market.\textsuperscript{41} But to preserve that choice, the copyright holder who litigates successfully should not receive statutory or other compensatory damages\textsuperscript{42} as well as the benefits of an enhanced market.

\begin{flushright}
\text{\textsuperscript{36} See id.}
\textsuperscript{37} See id.
\textsuperscript{39} See id.
\textsuperscript{40} See, e.g., Glynn S. Lunney, Jr., \textit{Reexamining Copyright’s Incentives-Access Paradigm}, 49 VAND. L. REV. 483 (1996).
\textsuperscript{42} “The Copyright Act permits a prevailing copyright owner in an infringement action to obtain both monetary and nonmonetary relief. The available nonmonetary relief includes injunctive relief and affirmative equitable relief, while the monetary remedies include statutory damages, compensatory damages, infringers’ profits, and costs and attorneys’ fees.” Dane S. Ciolino, \textit{Reconsidering Restitution in Copyright}, 48 EMORY L.J. 1, 9 (1999).
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Rather, the copyright holder who is successful in litigation should forgo the benefit of an enhanced market by having that benefit offset monetary damages.

Perhaps a better explanation would be that in most cases in which copying results in a net increase to the copyright holder’s market, market failure is not the result of high transaction costs but of the copyright holder not wanting to enter into a licensing relationship with the user in the first place. In these cases, market failure occurs when the copyright holder takes offense unrelated to economic harm. In the absence of fair use, injunctive relief, rather than monetary damages, may be more appropriate. However, this type of market failure is more likely to occur when an unauthorized user transforms a copyrighted work, which often leads to a finding of fair use and moots the question of the appropriate remedy.

Many critics of the economic model conceptualize fair use not as a defense but as a limit on the exclusive rights of the copyright holder in cases in which the unlicensed use

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Damages for copyright infringement are provided for in Section 504 of the Copyright Act. 17 U.S.C. § 504(a) (2003) (“An infringer is liable for either (1) the copyright owner’s actual damages and any additional profits of the infringer … ; or (2) statutory damages, as provided by subsection (c).”). Accordingly, a copyright owner successful in litigation must decide between actual and statutory damages. To determine the amount of actual damages, a court considers profits that the copyright owner lost because of the infringement (competitive sales), as well as any additional profits earned by the infringer as a result of the unlicensed use of the copyrighted work (noncompetitive sales). See generally 1 JOHN GLADSTONE MILLS, III ET AL., PATENT LAW FUNDAMENTALS § 6:90 (2d ed. 2002).

Alternatively, a copyright owner can seek statutory damages. 17 U.S.C. § 504(a). Courts have broad discretion in calculating statutory damages. According to § 504(c), statutory damages can range from $750 to $30,000 per “occurrence” of infringement, but can reach as much as $150,000 if the court finds that the infringement was “willful.” 17 U.S.C. § 504(c). Statutory damages are most relevant to the analysis in this article because in cases of market benefit, the copyright holder does not have any lost profits (apart from potential lost licensing revenues). Also possibly relevant are monetary awards that, in effect, disgorge the infringer of its non-competitive profits from the unlicensed use. I take up this measure of damages briefly in Part V-B, infra.

43 See Ciolino, supra note 42, at 9-11 (“Courts generally grant preliminary injunctive relief in copyright cases when the owner proves the reasonable likelihood that he will succeed on the merits. While proof of irreparable harm is a prerequisite to the granting of preliminary equitable relief in most federal cases, courts in copyright cases typically presume the existence of irreparable harm. … Likewise, courts readily enter permanent injunctions upon proof of ‘past infringement and a substantial likelihood of future infringement.’”) (citing, inter alia, Wainwright Sec., Inc. v. Wall Street Transcript Corp., 558 F.2d 91, 94
is transformative.\textsuperscript{44} They perceive fair use as an example of market failure because the market does not support transformative uses that add social, non-monetary value to the copyrighted work.\textsuperscript{45} This approach has its own flaws: not every transformative use is a fair use, and some non-transformative uses, including several that serve such public goals as education and public adjudication, are fair in certain cases. Both courts and scholars have found it difficult to balance the economic interests of copyright holders with the benefits to the public domain of a transformative or public\textsuperscript{46} use.\textsuperscript{47}

When there exists a potential net increase to the copyright holder’s market with no evidence of market harm, courts should (and, for the most part, do) recognize transformative and public uses as fair, as such findings successfully balance a copyright holder’s economic rights with the public interest.\textsuperscript{48} But if the use is non-transformative and private, then the increase to the copyright holder’s market should, at a minimum, offset damages even if the use is deemed unfair. In this article, I will analyze cases in which an unlicensed use enhances a copyright holder’s market. More often than not,

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\item[\textsuperscript{46}] As explained in Part IV-B, \textit{infra}, a public use, whether commercial or not, is a use that furthers some governmental purpose such as education.
\item[\textsuperscript{47}] See generally \textit{supra} notes 5, 34, and 45.
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applying the fair use doctrine in these cases calls into question the accepted notion of copyrights as property.\textsuperscript{49}

In Part II, I will look at the origins of the fair use doctrine, explain the four statutory factors that courts use to analyze fair use, and examine how the U.S. Supreme Court has addressed unlicensed uses that possibly enhance the copyright holder’s potential market. In Part III, I will discuss how fair use is conceptualized under the predominant theories of intellectual property and how any use that increases a copyright holder’s market may be classified under those theories. Part IV consists of an analysis and categorization of all fair use cases in which individual courts have recognized potential net increases to a copyright holder’s market, as well as a framework for a public/private dichotomy in place of the commercial/non-commercial dichotomy prevalent in fair use jurisprudence. In Part V, I reject economic market failure as an explanation for many fair use claims. I then describe a doctrinal framework for resolving fair use claims in cases in which an unlicensed use increases a copyright holder’s market and reconcile that framework with the predominant intellectual property theories. In Part VI, I will offer suggestions for developing a paradigm to look more generally at fair use, copyright law, and intellectual property rights.

\textsuperscript{49} See generally Douglas Y’Barbo, \textit{The Heart of the Matter: The Property Right Conferred by Copyright}, 49 MERCER L. REV. 643 (1998); Justin Hughes, \textit{The Philosophy of Intellectual Property}, 77 GEO. L.J. 287 (1988) [hereinafter Hughes, \textit{Philosophy}] (“In the centuries since our founding, the concept of property has changed dramatically in the United States. … A less frequently discussed trend is that historically recognized but nonetheless atypical forms of property, such as intellectual property, are becoming increasingly important relative to the old paradigms of property, such as farms, factories, and furnishings.”); Tussey, supra note 9, at 1170 (“Labor-desert, based on John Locke’s writings concerning real property, assumes the natural property right of the creator of an intellectual property work.”).
II. FAIR USE AND THE FOURTH FACTOR

Combining a look at the history of the fair use doctrine, the four factors delineated by Congress, and the U.S. Supreme Court's interpretation of fair use lays an appropriate foundation for reconsidering modern-day applications of the doctrine. To develop a new fair use framework requires a clear understanding of the doctrine and its purpose.

A. The History of the Fair Use Doctrine

Central to U.S. copyright law, the fair use doctrine balances the private rights of copyright holders with the public’s interest in accessing and using copyrighted works. As interpreted by the courts, the main purpose of U.S. copyright law is to give artists sufficient protection for original creations so as to provide them adequate incentives for creating new works, while giving the public the right to use existing works under specifically defined conditions.

The fair use principle can be traced to eighteenth-century England, a time during which English courts tried to establish a delicate balance between promoting the arts and sciences as part of the public domain and protecting property rights of artists and

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50 See, e.g., Anderson & Brown, supra note 34, at 153 (Fair use is a “necessary part of copyright law, the observance of which is essential to achieve the goals of that law.”).
51 The term “fair use” was coined in Lawrence v. Dana, 15 F. Cas. 26 (C.C.D. Mass. 1869) (No. 8,136) (addressing the question of “whether there has been a legitimate use, in the fair exercise of a mental operation, deserving the character of an original work, or whether matter has been taken colorably, animo furandi”).
52 See, e.g., Blaine C. Kimrey, Amateur Guitar Player’s Lament II: A Critique of A&M Records, Inc. v. Napster, Inc., and a Clarion Call For Copyright Harmony in Cyberspace, 20 REV. LITIG. 309, 319 (2001) (“Copyright serves two countervailing purposes. The first purpose is to help authors protect their works so they will have an incentive to produce. The second purpose is to facilitate public access to those works.”) (citations omitted).
53 “Fair use” was known as “fair abridgment” in the early English cases. See Loren, supra note 38, at 13-14.
inventors. But as courts were primarily concerned with protecting private property rights, they generally ruled that an unauthorized use was unfair if it harmed the market for the original work by competing against it. In seeking to prevent unwanted market competition, the courts were only somewhat mindful of the public benefit of certain unlicensed uses and allowed copying to proceed under narrowly-prescribed circumstances if they found that the use added to the public domain.

The first American appropriation of the fair use doctrine occurred in the 1841 case of *Folsom v. Marsh*. The defendant, who had written a biography of George Washington, was sued for using excerpts of letters from the plaintiff’s copyrighted and published biography of the first president. In finding for the plaintiff, the Massachusetts federal district court considered the factors that were later accepted universally as part of the modern fair use doctrine. In *Folsom*, Justice Story listed those factors as the “nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supercede the objects, of the original work.”

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56 See, e.g., Roworth, 170 Eng. Rep. at 890 (When “so much is extracted that it communicates the same knowledge [as] the original work, it is an actionable violation of literary property.”).
57 See Loren, *supra* note 38, at 13-15. See also Cary*4 Esp. at 170. In Cary the court remarked to the jury that “a man may fairly adopt part of the work of another: he may so make use of another’s labours for the promotion of science, and the benefit of the public: but having done so, the question will be, was the matter so taken used fairly with that view, and without what I may term the animus [or the intention to steal].” *Id.*
58 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4901).
59 The “nature and objects of the selections made” split into the first two factors of the modern fair use doctrine.
60 The four factors comprising the fair use doctrine are “(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.” 17 U.S.C. § 107 (2003).
61 *Folsom*, 9 F. Cas. at 348.
It took Congress 130 years following the *Folsom* decision to incorporate the fair use doctrine into statutory law\(^{62}\) when it established limitations on a copyright holder’s exclusive rights\(^{63}\) in Section 107 of the Copyright Act of 1976. According to its legislative history, the Act was created to “restate the present judicial doctrine of fair use, not to change, narrow, or enlarge it in any way.”\(^{64}\) Based on a constitutional mandate,\(^{65}\) Congress first passed copyright legislation in 1790 to protect artists, “mainly with a view to inducing them to give their ideas to the public, so that they may be added to the intellectual store, accessible to people, and that they may be used for the intellectual advancement of mankind.”\(^{66}\) These objectives were identical to those established by English courts in the preceding century but have been questioned by scholars in recent years.\(^{67}\)

\(^{62}\) See Loren, *supra* note 38, at 19 (explaining that around 1955, Congress debated whether fair use needed to be codified as it had existed for over a century as a judicially created and enforced doctrine. Of the experts Congress consulted, eight of the nine believed that fair use could remain a judicial doctrine; however, as history makes clear, Congress ultimately went forward with codification of the doctrine.) (citing Alan Latman, *SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS, 86TH CONG., 2D SESS., STUDY NO. 14 ON FAIR USE OF COPYRIGHTED WORKS* 39-44 (Comm. Print 1960)).

\(^{63}\) The six exclusive rights guaranteed to copyright owners in the Copyright Act of 1976 were:

(1) to reproduce the copyrighted work in copies or phonorecords;
(2) to prepare derivative works based upon the copyrighted work;
(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.


\(^{65}\) The constitutional mandate was “[t]o 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.” U.S. CONST., art. I, § 8, cl. 8.


\(^{67}\) See, e.g., Loren, *supra* note 38, at 47-48, 56 (“Courts should instead focus on what rule would best serve the public interest. Courts should ask if the overall public is better served by permitting the kind of use at
Since 1976, various courts have offered barometers for determining the fairness of unlicensed uses. However, judges continue to struggle because of the uncertainty of fact-specific inquiries that are required in copyright infringement cases and because there does not appear to be any universal understanding of how the four factors play out in different types of cases. Neither Congress nor the courts have created strict rules for applying the doctrine in various situations. As a result, courts have applied fair use inconsistently, which has increased the confusion over the doctrine.

Most courts have interpreted fair use as an affirmative defense to copyright infringement rather than as a limitation on the scope of a copyright holder’s rights.
According to Lydia Loren, courts “have not fully embraced the importance of fair use as a counterbalance to the limited monopoly rights granted to copyright owners.”

Loren’s interpretation seems most consistent with the balance that courts need to strike between public and private rights. What is for certain, however, is that amid the confusion in interpreting and applying the four fair use factors lies ambiguity regarding the purpose of the doctrine.

B. The Four Factors

The four fair use factors that Congress included in the Copyright Act of 1976 are: “(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.” Courts have generally interpreted the law as requiring a balancing of all four factors.77

According to the Section 107 preamble, legitimate fair use purposes are “criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research.” However, uses for these specific purposes are neither exempt from the four factor analysis, nor are all other instances excluded. Consequently, fair use analysis is viewed as a difficult, fact-intensive, and discretionary process requiring case-by-case examination.

nonexclusive and multifaceted factors.”); Lemley, supra note 45, at 1024 n.171 (“Section 107 provides a list of four nonexclusive factors to consider in determining whether a particular use is fair.”); Tussey, supra note 9, at 1144 n.40 (“The court may have added a transformative or productive use requirement to the usual four factors, though the precise scope of that requirement is unclear.”) (citing Laura G. Lape, Fair Use: The Productive Use Factor in Fair Use Doctrine, 58 ALB. L. REV. 677 (1995)).

For example, the reference to fair use “by reproduction in copies or phonorecords or by any other means” is mainly intended to make clear that the doctrine has as much application to photocopying and taping as to older forms of use; it is not intended to give these kinds of reproduction any special status under the fair use provision or to sanction any reproduction beyond the normal and reasonable limits of fair use. Similarly, the newly-added reference to “multiple copies for classroom use” is a recognition that, under the proper circumstances of fairness, the doctrine can be applied to reproductions of multiple copies for the members of a class.


Judge Learned Hand once described the fair use doctrine as “the most troublesome in the whole law of copyright.” Dellar v. Samuel Goldwyn, Inc., 104 F.2d 661, 662 (2d Cir. 1939).

See, e.g., Maureen A. O’Rourke, Toward a Doctrine of Fair Use in Patent Law, 100 COLUM. L. REV. 1177, 1191 (2002) (“The inquiry is heavily fact-intensive, with no one factor determinative.”); Matthew
1. First Factor: “Purpose and Character of Use”

Courts have focused on three dichotomies in applying the first fair use factor. The first is the distinction between non-licensed uses for commercial purposes versus those for non-commercial purposes. Congress did not intend for courts to use this factor to restrict the fair use doctrine to educational or non-profit uses but rather wanted to ensure that commercial motivation was considered in judicial analyses. A commercial use weighs against a finding of fair use, whereas a non-commercial use militates toward such a finding.


The precise inquiry undertaken by the courts is not whether the unauthorized use is part of a commercial work, but whether the unlicensed user exploits the copyrighted work for commercial gain. See, e.g., Harper & Row, 471 U.S. at 562 (“The crux of the profit/nonprofit distinction is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the customary price.”).


See, e.g., Sony, 464 U.S. at 451 (finding that “although every commercial use of copyrighted material is presumptively an unfair infringement of the monopoly privilege that belongs to the owner of the copyright, noncommercial uses are a different matter.”).

See id. Courts favor non-commercial uses because they are more consistent with the objectives of the Copyright Act to promote progress in the arts and sciences. See, e.g., Patry & Perlmutter, supra note 70. As to the misguided reliance on whether an unlicensed use is commercial, they write:

By misinterpreting the language of the statute and reading too much into dicta from the two major Supreme Court opinions on fair use, some courts have altered radically the traditional approach to the doctrine. Rather than examining all of the circumstances bearing on [the first and fourth] factors as well as the fair use inquiry as a whole, they have resorted to a simplistic judgment call turning on a characterization of the use as either commercial or not.

The second dichotomy\textsuperscript{88} is between transformative uses\textsuperscript{89} and non-transformative uses.\textsuperscript{90} Transformative uses that courts have looked upon favorably include commentaries,\textsuperscript{91} criticisms\textsuperscript{92} and parodies\textsuperscript{93} because they add value to the public domain.


\textsuperscript{88} Courts take up the question of whether an unlicensed use is transformative primarily under the first fair use factor. Bunker, supra note 45, at 4 (“The first factor … has been the prime site for the infiltration of the ‘transformative use’ doctrine, although the doctrine has been considered in connection with other statutory factors as well.”).

\textsuperscript{89} A transformative use alters or adds to the copyrighted work. See Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 577 (1994); Leval, Fair Use Standard, supra note 24, at 1111 (“Transformative uses may include criticizing the quoted work, exposing the character of the original author, proving a fact, or summarizing an idea argued in the original in order to defend or rebut it. They may also include parody, symbolism, aesthetic declarations, and innumerable other uses.”); Laura G. Lape, supra note 75.

\textsuperscript{90} See, e.g., Bunker, supra note 45, at 2 (“The transformative use requirement is not one found among the statutory fair use factors, and the Court acknowledged in Campbell that a use need not be transformative to be fair. Despite that caveat, the notion of transformative use has increasingly been emphasized by lower courts in subsequent fair use cases.”): Ty, Inc. v. Publications Int’l, Ltd., 81 F. Supp. 2d 899, 905 (N.D. Ill. 2000) (The books about beanie babies at issue “are not transformative, and, quite likely, not meant to be transformative.”); Paramount Pictures Corp. v. Carol Publg. Group, Inc., 11 F. Supp. 2d 329, 335 (S.D.N.Y. 1998) (finding the book nontransformative because the “chapters do not add anything substantial that is new to the Star Trek story”); Castle Rock Ent., Inc. v. Carol Publg. Group, Inc., 150 F.3d 132, 142 (2d Cir. 1998) (finding “[a]ny transformative purpose possessed by The [Seinfeld Aptitude Test] […] slight to non-existent”); Dr. Seuss Enters. v. Penguin Books USA, Inc., 109 F.3d 1394, 1401 (9th Cir. 1997) (finding the book at issue was not transformative because “the substance and content of The Cat in the Hat is not conjured up by the focus on the Brown-Goldman murders or the O.J. Simpson trial”).

\textsuperscript{91} See, e.g., Suntrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1268, 1277 (11th Cir. 2001) (The Wind Done Gone, a novel whose storyline provided a book-length commentary on Gone With the Wind, found to be transformative and fair); Nunez v. Caribbean Int’l News Corp., 235 F.3d 18, 21-22, 25 (1st Cir. 2000) (replication of one photograph published alongside newspaper commentary about controversial photographs was transformative and fair).

\textsuperscript{92} See, e.g., Sundeman v. Seajay Socy., 142 F.3d 194, 202-03 (4th Cir. 1998) (“While [the paper] does quote from and paraphrase substantially Blood of My Blood, its purpose is to criticize and comment on Ms. Rawlings’ earliest work. Thus, Blythe’s transformative paper fits within several of the permissible uses enumerated in § 107.”).

\textsuperscript{93} See, e.g., Leibovitz v. Paramount Pictures Corp., 137 F.3d 109, 114 (2d Cir. 1998) (finding that an advertisement featuring a parody of a copyrighted photograph of Demi Moore was a transformative fair use) (“[T]he ad is not merely different; it differs in a way that may reasonably be perceived as commenting, through ridicule, on what a viewer might reasonably think is the undue self-importance conveyed by the subject of the Leibovitz photograph.”); Suntrust Bank, 268 F.3d at 1277. But see Metro-Goldwyn-Mayer, Inc. v. Showcase Atlanta Co-op Prod., Inc., 479 F. Supp. 351, 360-61 (N.D. Ga. 1979) (holding that theatrical work Scarlett Fever copied extensively from the plot and characters of the movie Gone With the Wind without providing commentary or criticism of the movie and therefore did not qualify as a parody or a fair use). Some courts try to draw a further distinction between “parodies” and “satires” in light of the Court’s dicta in Campbell, 510 U.S. at 590-91, that “parody needs to mimic an original to make its point, and so has some claim to use the creation of its victim’s . . . imagination, whereas satire can stand on its own two feet and so requires justification for the very act of borrowing.” See, e.g., Suntrust Bank, 268 F.3d at 1268 (“Parody, which is directed toward a particular literary or artistic work, is distinguishable from
and are not mere replications of what the copyright holder has already created. 94

However, courts have also acknowledged that many uses that are not transformative—especially uses for educational and other non-commercial purposes—are also fair. 95

The final dichotomy is between the use of a copyrighted work for its factual or historical content 96 versus use for its mode of expression. 97 Based on the original intent of U.S. copyright law—that is, to protect creative expression, but not facts, ideas, or history—, 98 courts have looked unfavorably upon the duplication of copyrighted modes satire, which more broadly addresses the institutions and mores of a slice of society.”); Barban v. Time Warner, Inc., 2000 U.S. Dist. LEXIS 4447, *8-9 (S.D.N.Y. 2000) (“Parody is generally protected under the fair use doctrine as a valued form of social and literary criticism. … Satire, on the contrary, mimics the copyrighted work, using it as a ‘vehicle to poke fun at another target’ and is generally granted less protection under the fair use doctrine.”); Dr. Seuss, 109 F.3d at 1400.

94 See, e.g., Campbell, 510 U.S. at 579 (“Although such transformative use is not absolutely necessary for a finding of fair use, to promote science and the arts, is generally furthered by the creation of transformative works.”); Leval, Fair Use Standard, supra note 24, at 1111 (“If … [the] use adds value to the original—if the quoted matter is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings—this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society.”).

95 See, e.g., Campbell, 510 U.S. at 579 n.11 (“[T]he obvious statutory exception to this focus on transformative uses is the straight reproduction of multiple copies for classroom distribution.”); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984) (finding non-transformative, non-commercial home videotaping a fair use).

96 See, e.g., Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 563 (1985) (“‘A Time to Heal’ may be characterized as an unpublished historical narrative or autobiography. The law generally recognizes a greater need to disseminate factual works than works of fiction or fantasy.”); Feist Publications, Inc. v. Rural Tel. Serv., 499 U.S. 340 (1991) (holding use of factual content is fair use); Einhorn, supra note 45, at 591 n.16 (“The scope of fair use is more limited with respect to non-factual works than factual works; the former necessarily involves more originality and creativity than the reporting of facts. … Factual works are believed to have a greater public value and unauthorized uses of them are more readily tolerated by copyright law.”) (citing New Era Publications Int’l v. Carol Publg. Group, 904 F.2d 152, 157 (1990); Salinger v. Random House, Inc., 811 F.2d 90, 96 (1987)).

97 See, e.g., Harper & Row, 471 U.S. at 547 (“The copyright is limited to those aspects of a work—termed ‘expression’—that display the stamp of the author’s originality.”); Holdredge v. Knight Publg. Corp., 214 F. Supp. 921, 924 (S.D. Cal. 1963) (rejecting fair use because defendant’s work “mirrors the manner and style in which the plaintiff chose to set down the factual and historical material she used, and to express her thoughts and conclusions”).

98 Facts, unlike expression, are part of the public domain so using them, without copying the expression itself, is not something to which the copyright holder has exclusive rights. See, e.g., Dratler, supra note 70, at 240 (“Although copyright in a work of authorship protects the author’s particular manner of expression, it does not protect the underlying facts or ideas.”) (citing Baker v. Selden, 101 U.S. 99, 101-03, 104-05 (1880) (copyright does not protect a system of accounting forms); Miller v. Universal City Studios, Inc., 650 F.2d 1365, 1370-72 (5th Cir. 1981) (reporter’s research on facts in “news” not protected); Hoehling v. Universal City Studios, Inc., 618 F.2d 972, 978-79 (2d Cir.), cert. denied, 449 U.S. 841 (1980) (facts and speculation regarding historical event not protected); Rosemont Enters., Inc. v. Random House, Inc., 366 F.2d 303, 307 (2d Cir. 1966), cert. denied, 85 U.S. 1009 (1967) (biographical facts not protected);
of expression, especially for commercial purposes. Because facts and ideas cannot be copyrighted, the extent to which an alleged infringer copies a mode of expression (as opposed to facts and ideas) also touches on the second fair use factor.


Courts are required to assess “the value of the copyrighted materials used” and the extent to which the materials are at “the core of intended copyright protection.” According to U.S. copyright law, the need to protect and disseminate works that are “creative, imaginative, and original” is stronger than the need to protect works that are informational or functional at their core. In addition, the second factor encourages courts to consider whether a copyrighted work has been published,
disseminated, or otherwise made part of the public domain prior to its unlicensed use.\textsuperscript{107}

Courts provide unpublished works or works that have not otherwise been publicly distributed greater protection in order to preserve the creator’s right to choose how and when a work should be published, as well as the right to decide whether to publish it at all.\textsuperscript{108}

3. \textit{Third Factor: “Amount and Substantiality of Portion Used”}

Courts evaluate the amount and substance of the copyrighted work used by an unlicensed user in relation to the original work as a whole.\textsuperscript{109} A review of relevant cases\textsuperscript{110} reveals considerable latitude in terms of strictness, with one court holding that even “a small degree of taking is sufficient to transgress . . . [a fair use claim] if the copying is the essential part of the copyrighted work.”\textsuperscript{111} Other courts have ruled that using a small amount of copyrighted material that is unrelated to the work’s creative core

\textsuperscript{106} See supra note 103.


\textsuperscript{109} See, e.g., Consumers Union of U.S., Inc. v. General Signal Corp., 724 F.2d 1044, 1050 (2d Cir. 1983), \textit{cert. denied}, 469 U.S. 823 (1984) (Use of 29 words from article of 2100 words was insubstantial and therefore fair use); Roy Export Co. v. Columbia Broadcasting Sys., Inc., 503 F. Supp. 1137, 1145 (S.D.N.Y. 1980), \textit{aff’d}, 672 F.2d 1095 (2d Cir. 1982) (Use of film excerpts, though minimal, was qualitatively substantial).


\textsuperscript{111} Cable/Home Communications Corp. v. Network Productions, Inc., 902 F.2d 829, 844 (11th Cir. 1990) (citing Harper & Row, 471 U.S. at 564-65).
is *de minimis* \(^{112}\) and therefore does not weigh against fair use, and could even be cause to reject the copyright holder’s claim of infringement.\(^{113}\) But most courts agree that the extensive use of copyrighted material for the purpose of copying the mode of expression never constitutes fair use.\(^{114}\) Judges commonly make an effort to weigh the third factor by determining whether substantial similarities exist between the original work and the unlicensed use.\(^{115}\)

4. **Fourth Factor: “The Effect of Use Upon the Potential Market”**

In one ruling, the U.S. Supreme Court asserted that the fourth factor is “undoubtedly the single most important element of fair use,”\(^{116}\) yet wide variations exist

\(^{112}\) *See, e.g.*, Werlin v. Reader’s Digest Ass’n, Inc., 528 F. Supp. 451, 464 (S.D.N.Y. 1981) (finding the copying of two separate lines from an article “to be so fragmented as to be *de minimis*”); Toulmin v. Rike-Kumler Co., 316 F.2d 232, 232 (6th Cir. 1963); Linda J. Lacey, *Of Bread and Roses and Copyrights*, 1989 DUKE L.J. 1532, 1545 n.65 (“The idea that a *de minimis* copying may constitute fair use has existed for decades and was apparently endorsed by Justice Blackmun in the Betamax case.”).

\(^{113}\) *See* Ringgold v. Black Ent., 126 F.3d 70, 76 (2d Cir. 1997). The court reasoned that where an alleged infringement “makes such a quantitatively insubstantial use of the copyrighted work as to fall below the threshold required for actionable copying, it makes more sense to reject the claim on that basis and find no infringement, rather than to undertake an elaborate fair use analysis in order to uphold a defense.” *Id.* *See also* Leval, *Fair Use Standard, supra* note 24, at 1116 n.52 (“Because copyright is a pragmatic doctrine concerned ultimately with public benefit, under the de minimis rule negligible takings will not support a cause of action. The justifications of the de minimis exemption, however, are quite different from those sanctioning fair use. They should not be confused.”) (citing Funkhouser v. Loew’s, Inc., 208 F.2d 185 (8th Cir. 1953), *cert. denied*, 348 U.S. 843 (1954); Suid v. Newsweek Magazine, 503 F. Supp. 146, 148 (D.D.C. 1980); McMahon v. Prentice-Hall, Inc., 486 F. Supp. 1296, 1303 (E.D. Mo. 1980); Greenbie v. Noble, 151 F. Supp. 45, 70 (S.D.N.Y. 1957); Rokeach v. Avco Embassy Pictures Corp., 197 U.S.P.Q. (BNA) 155 (S.D.N.Y. 1978)).

\(^{114}\) *See supra* note 99.

\(^{115}\) “Substantial similarity” is also a threshold inquiry. Courts require the copyright holder to show a substantial similarity between the original work and the copy to maintain a claim for copyright infringement. The “substantial similarity” standard is usually used in that context. Some courts, however, have, when considering the third factor, referred back to the “substantial similarity” analysis used in determining whether the plaintiff has a *prima facie* case. *See, e.g.*, Suntrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1271-1273 (11th Cir. 2001). Discussing the third factor, the court in *Suntrust Bank* stated, “As we have already indicated in our discussion of substantial similarity, TWDG appropriates a substantial portion of the protected elements of GWTW.” *Id.* at 1272.

\(^{116}\) Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 565 (1985). But *see* 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.”); Leval, *Fair Use Standard, supra* note 24, at 1124 (“Although the market factor is significant, the Supreme Court has somewhat overstated its importance.”).
in terms of defining potential markets\textsuperscript{117} and the value\textsuperscript{118} of original works. Most courts seem to limit their examination to the “harm” posed by unlicensed uses\textsuperscript{119} without

\textsuperscript{117} See Africa, supra note 82, at 1155 (“Although the plain language of the statute, by using the word ‘potential,’ indicates that copyright law recognizes injuries to some markets that the owner has not entered, it does not clearly state how far protection can or should extend—after all, it is hard to think of any market that is not in some sense ‘potential.’”); Shubha Gosh, Rights of First Entry in “Derivative Markets”: Exploring Market Definition in Copyright (paper prepared for Third Annual Intellectual Property Scholars Conference, Aug. 8, 2003) (noting courts’ varying approaches to defining market under the fourth factor), available at http://www.law.berkeley.edu/institutes/bclt/ipsc/papers/IPSC_2003_Ghosh.pdf.

\textsuperscript{118} See, e.g., Suntrust, 268 F.3d at 1274 (quoting 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §1305[A][4], at 181 (2001) (cit ing Consumers Union of U.S., Inc. v. General Signal Corp., 724 F.2d 1044 (2d Cir. 1993)) (“The fourth factor looks to adverse impact only by reason of usurpation of the demand for plaintiff’s work through defendant’s copying of protectible expression from such work.”); Triangle Publications, Inc. v Knight-Ridder Newspapers, Inc., 626 F.2d 1171, 1177 (5th Cir. 1980) (Difficulty in calculating the value of “TV Guide” left court unable to find any effect on the commercial value of that original work) (“We are simply unable to find any effect other than possibly de minimus on the commercial value of the copyright.”); Africa, supra note 82, at 1155 (“The ‘value of’ clause should not be read too literally, for to do so would bar some of the prototypical fair uses. Take for instance a quotation from a work in a scathing review—presumably, this use would affect both the value of and the potential market for the work, because if everyone is convinced the work is bad, no one will want the work or license its use.”).

\textsuperscript{119} See, e.g., Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 566-67 (1985) (“‘Fair use, when properly applied, is limited to copying by others which does not materially impair the marketability of the work which is copied.’ The trial court found not merely a potential but an actual effect on the market.”) (emphasis added) (citing MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT 1.10[D], at 1-87 (1984)); Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 590 (1994) (The fourth factor “requires courts to consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also ‘whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market’ for the original.”) (emphasis added) (quoting MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §13.05[A][4], at 13 (1993)); Kelly v. Arriba 2003 U.S. App. LEXIS 13562 *21 (9th Cir. 2003) (quoting exact language of Campbell, supra); Veeck v. Southern Building Code Congress Int’l., Inc., 293 F.3d 791, 824 (5th Cir. 2002) (“Fourth, Veeck’s use could have a substantially detrimental effect on the market for the copyrighted work. … There is no genuine dispute … ‘that some meaningful likelihood of future harm exists.’”) (emphasis added) (quoting the language from Campbell, supra); A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1016 (9th Cir. 2001) (“‘Fair use … is limited to copying by others which does not materially impair the marketability of the work which is copied.’ … ‘The importance of this [fourth] factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors.’ The proof required to demonstrate present or future market harm varies with the purpose and character of the use.”) (emphasis added) (quoting Harper & Row, 471 U.S. at 566-67; Campbell, 510 U.S. at 591 n.21); Nunez v. Caribbean Int’l News Corp., 235 F.3d 18, 24 (1st Cir. 2000) (“Our inquiry … is restrained to: (i) ‘the extent of market harm caused by the particular actions of the alleged infringer’; and (ii) ‘whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market.’”) (emphasis added) (quoting Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 110 (2d Cir. 1998)); Castle Rock Ent., Inc. v. Carol Publg. Group, Inc., 150 F.3d 132, 154 (2d Cir. 1998) (quoting exact language of Campbell, supra); Infinity Broadcast Corp. v. Kirkwood, 150 F.3d 104, 110 (2d Cir. 1998) (quoting exact language of Campbell, supra); Leibovitz v. Paramount Pictures Corp., 137 F.3d 109, 116-17 (2d Cir. 1998) (“Her only argument for actual market harm is that the defendant has deprived her of a licensing fee by using the work as an advertisement.”) (emphasis added); Dr. Seuss Enters. v. Penguin Books USA, Inc., 109 F.3d 1394, 1403 (9th Cir. 1997) (“Under this factor, we consider both the extent of market harm caused by the publication and distribution of The Cat NOT in the Hat! and
considering all of the market “effects”—both beneficial and harmful—as Section 107 requires. When the unlicensed use is commercial and non-transformative, courts tend to put the burden of proof on accused infringers to establish that the copyright holder’s potential market has not been harmed. In non-commercial and transformative scenarios, however, the burden to show market harm shifts to the copyright holder. When analyzing that harm, courts often expand their inquiry to determine “whether unrestricted and widespread conduct of the sort engaged in by the [alleged infringer] . . . would result in a substantially adverse impact” on the market for the original work.

The copyright holder’s potential market includes uses that substitute for rather than merely complement the copyrighted work. As such, courts consider any harm

\[120\] See 17 U.S.C. § 107(4) (2003) (“the effect of the use upon the potential market for or value of the copyrighted work.”).  
\[121\] See, e.g., Harper & Row, 471 U.S. at 567 (“[O]nce a copyright holder establishes with reasonable probability the existence of a causal connection between the infringement [for commercial purposes] and a loss of revenue, the burden properly shifts to the infringer to show that this damage would have occurred had there been no taking of copyrighted expression.”); Dratler, supra note 70, at 321 (“If the use is commercial, the defendant bears the burden, as is generally appropriate for an element of an affirmative defense.”).  
\[122\] On the difficulty of proving market harm, see Harper & Row, 471 U.S. at 567 (“Rarely will a case of copyright infringement present such clear-cut evidence of actual damage.”).  
\[123\] See, e.g., Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 451 (1984) (“A challenge to a noncommercial use of a copyrighted work requires proof either that the particular use is harmful, or that if it should become widespread, it would adversely affect the potential market for the copyrighted work. . . . What is necessary is a showing by a preponderance of the evidence that some meaningful likelihood of future harm exists.”).  
\[125\] Uses that are substitutes for a copyrighted work compete directly in the same market with the original work. See, e.g., Campbell, 510 U.S. at 587.  
\[126\] See O’Rourke, supra note 82, at 1229 (“Courts have used copyright fair use to excuse the ‘intermediate’ infringement that occurs in the production of a new, complementary product.”) (citing Atari Games Corp. v. Nintendo of Am., Inc., 975 F.2d 832 (Fed. Cir. 1992); Sega Enters. Ltd. v. Accolade, Inc., 977 F.2d 1510 (9th Cir. 1992); Sony Computer Entertainment, Inc. v. Connectix Corp., 203 F.3d 596 (9th Cir. 2000)); Raymond Shih Ray Kul, The Creative Destruction of Copyright: Napster and the New
from a competing work to the actual or potential derivative markets of the copyright holder but not harm to the copyright holder’s actual or potential ancillary markets. The United States Court of Appeals for the Second Circuit distinguished between derivative and ancillary markets in *American Geophysical Union, et al. v. Texaco Inc.*, recognizing only “traditional, reasonable, or likely developed [derivative] markets” in determining whether the publisher suffered a market loss when Texaco researchers photocopied journal articles. While the court felt that the fourth factor ultimately favored the plaintiff, it did not include the plaintiff’s alleged loss in subscription revenues in measuring market harm, holding that it was unreasonable to assume that every photocopied article represented a lost journal purchase.

As part of the inquiry into market harm, courts, such as the Second Circuit in *Texaco*, have considered the opportunity of copyright holders to license their original works both to the alleged infringer and to other users. In some circumstances,
licensing royalties could have been realized by the copyright holder absent infringement and litigation. However, in the vast majority of fair use cases, courts’ reliance on potential licensing revenues to expand the scope of the copyright holder’s market is misguided because no market exists for such licensing. To assume without further analysis that an unauthorized use causes the copyright holder to lose licensing revenues ends prematurely the fourth factor inquiry. Whether a market exists for such licenses and, if so, the extent of such a market, is critical to the fourth factor analysis in cases where there is a possible benefit to the copyright holder’s market from the unauthorized use. Consequently, it is imperative first to evaluate the effect of the unlicensed use on the copyright holder’s market apart from the possibility of unrealized licensing revenues, and then to factor the licensing variable into the fair use equation.

Arguably, the fourth factor exerts the strongest influence on court analyses, with many judges ruling against fair use claims when faced with potential negative effects on others to develop.”); Ty, Inc. v. Publications Int’l, Ltd., 81 F. Supp. 2d 899, 906 (N.D. Ill. 2000) (“I take as true the claim that defendants’ products do not harm the market for Ty’s plush toys—a point that Ty does not bother to dispute. I take as true that the defendants’ products do harm Ty’s market to license the use of its copyrights, as it has already done with six publishers.”).

133 See 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT 13.05[A][4], at 13-187 (1996) (“[A] potential market, no matter how unlikely, has always been supplanted in every fair use case, to the extent that the defendant, by definition, has made some actual use of plaintiff’s work, which use could in turn be defined as the relevant potential market. In other words, it is a given in every fair use case that plaintiff suffers a loss of a potential market if that potential is defined as the theoretical market for licensing the very use at bar.”). See also Patry &Perlmutter, supra note 70. They note:

In an era when licensing and subsidiary rights have taken on increasing importance, the potential market for the copyrighted work goes well beyond the sale of copies of the work in its original form. Today, the market for derivative works is an economically important part of the copyright owner’s market, and therefore an important part of the incentive that drives the copyright system.

... Too broad an interpretation of the potential market, however, presents its own dangers. If taken to a logical extreme, the fourth factor would always weigh against fair use, since there is always a potential market that the copyright owner could in theory license. By definition, once the affirmative defense of fair use is invoked, there has already been a finding of infringement. Accordingly, the defendant’s use necessarily falls within the area of the copyright owner’s exclusive rights and therefore could have been licensed.
markets for copyrighted materials. However, judges have so far been inconsistent in cases involving potential market benefits. The U.S. Supreme Court has added to the confusion regarding the application and relevance of the fourth factor in such cases by failing to establish a consistent balance between the rights of copyright holders and the rights of the public to use creative works.

C. The U.S. Supreme Court’s Interpretation of Fair Use and the Fourth Factor

The Supreme Court has considered the fair use question four times since Congress passed the U.S. Copyright Act of 1976. On each occasion, the Court reanalyzed the fair use doctrine and reset the boundaries between the economic rights of the copyright holder and the public’s interest in accessing the copyright holder’s original works and transformations of those works. Unfortunately, the four decisions combined have little to offer in terms of principled and consistent interpretations of the fourth factor.

1. *Sony Corp. of Am. v. Universal City Studios, Inc.*

In this case, a television production company filed a copyright infringement suit against the manufacturers of home videotape recorders for contributing to consumers using the recorders to tape television programs and watch them after they had aired. In reversing the appellate court, the U.S. Supreme Court ruled that the sale of VCRs did not

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134 Id. at 687-88.
135 See supra note 109.
136 See generally supra note 5.
constitute contributory infringement of the plaintiffs’ copyrights.\textsuperscript{138} According to the decision, the Court arrived at a “sensitive balancing of interests” by analyzing the four fair use factors in the context of how consumers used the recorders.\textsuperscript{139} Based on its interpretation of the fourth factor, the majority found that the plaintiffs failed to demonstrate any likelihood of harm to the potential markets for the copyrighted works\textsuperscript{140} and, in fact, alluded to potential market increases through the practice of “time-shifting”\textsuperscript{141}—that is, expanding the viewing audience of a program and the advertisements aired during it by allowing viewers to watch pre-recorded television programs at their convenience. The fourth factor was clearly the most important influence in the Court’s decision.

But the Court also asserted that determinations of fair use must be based on the facts and circumstances of individual cases\textsuperscript{142} and suggested that works with broad secondary markets might deserve greater protection because of the increased likelihood of commercial harm.\textsuperscript{143} The justices predicted there would be cases in which unlicensed uses would be unfair, as the commercial harm to the copyright holder would outweigh the

\textsuperscript{138} \textit{Id.} at 456.
\textsuperscript{139} \textit{Id.} at 454-55.
\textsuperscript{140} \textit{Id.} at 456 (“[R]espondents failed to demonstrate that time-shifting would cause any likelihood of nonminimal harm to the potential market for, or the value of, their copyrighted works.”).
\textsuperscript{141} \textit{Id.} at 453-54.
\textsuperscript{142} \textit{Id.} at 448 n.31 (“[S]ince the doctrine is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts. … The endless variety of situations and combinations of circumstances that can arise in particular cases precludes the formulation of exact rules in the statute.”) (quoting H.R. Rep. No. 1476, 94th Cong., 2d Sess. 65-66 (1976)). The Court was clear that it was “[a]pplying the copyright statute, as it now reads, to the facts as they have been developed in this case.” \textit{Id.} at 456.
\textsuperscript{143} \textit{Id.} at 455 n.40 (“Some copyrights govern material with broad potential secondary markets. Such material may well have a broader claim to protection because of the greater potential for commercial harm.”).
public interest. But the Court failed to offer any specific guidance for distinguishing between that scenario and the scenario presented in Sony.


Interestingly, the situation the Court in Sony foreshadowed was at issue in the next fair use case the Court heard. The defendant in Harper & Row published a magazine article containing quotations from former president Gerald Ford’s memoirs which were being prepared for publication. Again, the Court considered all four fair use factors in emphasizing a balance between the exclusive rights of the copyright holder to reap financial rewards and the public’s interest in learning more about the thoughts of a former president—but its decision relied heavily on the fourth factor. Because the copyright holder suffered a loss in revenue from not being the first to disseminate the quotations, the Court ruled that the defendant’s use was unfair. According to its decision, the use in question adversely affected the potential market for the copyrighted work, which was not what Congress intended by “fair use” in the 1976 statute.

However, the Court did not use this opportunity to clarify for the lower courts how to address the economic effects of unlicensed uses of copyrighted works. Instead,
the Court’s fact-specific analyses in *Harper & Row* and *Sony* led to further inconsistencies among lower courts regarding the fair use doctrine.\

3. *Stewart v. Abend*\textsuperscript{151}

The *Stewart* case goes to the heart of what benefits a copyright entails and what protection derivatives do or do not enjoy. When MCA re-released *Rear Window*, a film largely based on Cornell Woolrich’s story “It Had to be Murder,” the copyright holder of the story\textsuperscript{152} sued for infringement. Writing for the U.S. Supreme Court majority, Justice O’Connor rejected the user’s claim that the film, as a derivative, was a new work and therefore protected by the fair use doctrine.\textsuperscript{153} Indeed, the court said the claim went against the copyright laws’ express protection of derivatives.\textsuperscript{154}

Before affirming the validity of the copyright, the Court examined all four fair use factors. The justices ruled that the re-release was unfair because a) it was an unauthorized commercial use, and therefore presumptively unfair;\textsuperscript{155} b) as a work of fiction, the copyrighted material deserved more protection from infringement than a factual work;\textsuperscript{156} c) a substantial portion of the copyrighted work was used in the film;\textsuperscript{157} and d) the re-release harmed the copyright holder’s ability to market new versions of the

\textsuperscript{150} See generally supra note 5.

\textsuperscript{151} 495 U.S. 207 (1990).

\textsuperscript{152} Woolrich had died two years before the original copyright term expired, but his executors renewed the copyright after Woolrich’s death and assigned the rights to Abend.

\textsuperscript{153} Id. at 216.

\textsuperscript{154} Id. at 222-23 (“Petitioners maintain that the creation of the ‘new,’ i.e., derivative, work extinguishes any right the owner of rights in the pre-existing work might have had to sue for infringement that occurs during the renewal term. We think, as stated in *Nimmer on Copyright*, that ‘[t]his conclusion is neither warranted by any express provision of the Copyright Act, nor by the rationale as to the scope of protection achieved in a derivative work. It is moreover contrary to the axiomatic copyright principle that a person may exploit only such copyrighted literary material as he either owns or is licensed to use.’”) (quoting 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 3.07[A], at 3-23 to 3-24 (1989)).

\textsuperscript{155} Id. at 237 (quoting Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 451 (1984)).

\textsuperscript{156} Id. at 237-38 (citing Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 563 (1985)).

\textsuperscript{157} Id. at 238 (citing *Harper & Row*, 471 U.S. at 564-65).
work. In contrast to its previous assertion that the fourth factor was “the most important, and indeed, central fair use factor,” the Court de-emphasized the fourth factor by stating that “common sense” led to its conclusion that the “re-release of the film impinged on the ability to market new versions of the story.”

The Court in Stewart overcame the case’s complicated chain of successive works and past licenses by providing exclusive rights to the then-current copyright holder. It allowed the copyright holder the freedom to pursue derivative markets without analyzing whether those markets existed and essentially ignored fourth factor influences, particularly net market benefit in the form of the unlicensed use increasing interest in the original story. The movie company invested time, labor, and capital in the re-release, which it then lost once the re-release was deemed unfair. Consequences to the entertainment industry from this decision have included producers obtaining all necessary copyrights, including expectancy rights, before producing a movie or else risk losing their investments when copyrights change hands. This new hurdle negatively affected the public interest and private economic incentives alike as increased production costs likely decreased the number of new productions.

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158 Id. at 238.
159 Id. (quoting 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 13.05[A], at 13-81 (1989)).
160 Id. at 238.
161 The U.S Court of Appeals for the Ninth Circuit also dismissed the possible market benefit of the re-release. Abend v. MCA, Inc., 863 F.2d 1465, 1481-82 (9th Cir. 1988) (“Under Nimmer’s hypothetical, this adverse effect on the owner’s adaptation rights makes the defendants’ use of the underlying work unfair. It is irrelevant that the re-release of the “Rear Window” film may have promoted sales of the underlying story in the book medium.”) (citing 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 13.05[B], at 13-84 (1988)).
162 “Expectancy” means “the possibility that an heir apparent, an heir presumptive, or a presumptive next-of-kin will acquire property by devolution on intestacy, or the possibility that a presumptive legatee or devisee will acquire the property by will.” BLACK’S LAW DICTIONARY 598 (7th ed. 1999).

In this case, the U.S. Supreme Court strove to balance all four fair use factors. The majority ruled that the defendant’s use could qualify as fair even though a song written and performed by 2 Live Crew had substantial similarities to the original Roy Orbison recording. In its ruling, the Court emphasized that the importance of the fourth factor varies. According to the Court, the fourth factor should account for “not only . . . harm to the original, but also of harm to the market for derivative works,” and then added that when determinations of market harm prove difficult, “the other fair use factors may provide some indicia of the likely source of the harm.” In this particular case, the Court found that the public interest benefits of the transformed recording were strong, but remanded the case so that the trial court could weigh the uncertain harm to the copyright holder’s market.

Interestingly, the Court failed to present anything more than a footnote on the potential benefit to the copyright holder’s market from the unauthorized use. In that footnote, the Court suggested that even though such use may increase the primary market for the copyrighted work, that potential increase does not, by itself, result in fair use. Therefore, any market effect, such as stimulating demand for the original song, must be

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165 See Part I, supra, for a detailed description of the facts of this case.
166 *Campbell*, 510 U.S. at 591.
167 Plaintiff, Acuff-Rose, did not write the song. Roy Orbison wrote the song, entitled “Oh Pretty Woman,” and he sold his rights in it to the plaintiff. *Id.* at 571.
168 *Id.* 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.”).
169 *Id.* at 590 (quoting Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 568 (1985)).
170 *Id.* at 593 n.24.
171 *Id.* at 593.
172 See *id.* at 590 n.21 (citing Leval, *Fair Use Standard*, supra note 24, at 1124 n.84).
considered along with the other factors in any fair use determination.\footnote{See id.} Despite its
previous concern for the economic impact of unlicensed use in \textit{Harper & Row} and \textit{Sony},
the court refused to directly confront the issue of potential market benefit in \textit{Campbell}.
The justices also offered no justification for why certain unlicensed uses should not be
considered fair \textit{per se} if they enhance a copyright holder’s market.

These four decisions demonstrate the Supreme Court’s reluctance toward
developing coherent guidelines for weighing the market benefit from an unlicensed use of
copyrighted material under the fourth factor. The absence of a clear framework leaves
copyright holders and potential users in limbo, and shows the necessity for a consistent
approach to protecting both the economic incentives of artists and creators as well as the
public domain in such cases.

\section*{III. IP Theories, Fair Use, and the Fourth Factor}

Each of the four predominant theories of intellectual property—utilitarian, labor,
personality, and social planning—provide a unique perspective on reconciling the
competing interests at the core of U.S. copyright law.\footnote{See generally William W. Fisher, III, \textit{Theories of Intellectual Property}, \textit{in NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY} (Stephen Munzer ed. 2001) [hereinafter Fisher, \textit{Theories}], \textit{available at} http://cyber.law.harvard.edu/people/tfisher/iptheory.pdf.} However, these theories are
ineffective as normative indicators of where courts should draw the line between fair and
unfair uses of copyrighted material. Furthermore, while it is possible to use these
theoretical perspectives to analyze cases in which an unlicensed use benefits a copyright
holder’s potential market, they do little to help establish a consistent methodology for
balancing that benefit with other factors in the fair use equation.

\textbf{A. Utilitarian Theory}
The most widely accepted of the four theories, utilitarianism encourages wealth maximization as a means of promoting “general happiness” for the greatest number of citizens.\textsuperscript{175} Theorists who ascribe to this model believe that courts should maximize social welfare by balancing exclusive economic rights and incentives for the creators of original works with public benefits accruing through the widespread use and transformation of copyrighted material.\textsuperscript{176} Two of the leading proponents of this school of thought, William Landes and Richard Posner, believe that artists and creators cannot recover their “costs of expression” (i.e., time, labor, and monetary investment) when others duplicate or copy their works without paying licensing royalties.\textsuperscript{177} When unlicensed users fail to compensate copyright holders for these “costs of expression,” they decrease copyright holders’ market share with their lower costs of production, which discourages artists and authors from creating new works.\textsuperscript{178}

Because maximum social welfare cannot be achieved in the absence of new inventions and creative works, utilitarians support an approach in which artists, writers, and inventors are granted exclusive rights to their works and inventions for a limited period of time before the intellectual property enters the public domain.\textsuperscript{179} This approach reflects the language in the U.S. Constitution granting Congress the power to promote science and the arts “by securing for limited Times to Authors and Inventors the

\textsuperscript{175} See Fisher, \textit{Fair Use}, supra note 70, at 1745 (stating that “[u]tilitarian theorists argue that our goal should be to identify and institute the system that would maximize ‘general happiness,’ measured by the sum of the pleasures minus the sum of the pains experienced by the members of the society”).

\textsuperscript{176} See Fisher, \textit{Theories}, supra note 174, at 2.

\textsuperscript{177} Landes & Posner, supra note 34. Utilitarian theorists believe that courts should find an unlicensed use fair only when there exists high transaction costs to licensing. \textit{See generally supra note 34.}

\textsuperscript{178} See Landes & Posner, supra note 34.

exclusive right to their respective Writings and Discoveries.”\textsuperscript{180} The current debate about the length of the copyright term illustrates how impossible it is to make a precise determination of the extent of protection needed to maximize the artist’s or author’s incentive to create.\textsuperscript{181}

Utilitarian reasoning is frequently cited in U.S. Supreme Court decisions on copyright infringement.\textsuperscript{182} In Fox Film Corp. v. Doyal,\textsuperscript{183} the Court stated that “the sole interest of the United States and the primary object in conferring the [copyright] monopoly lie in the general benefits derived by the public from the labors of authors.”\textsuperscript{184} More recently, the Court explained in Sony:

\begin{quote}
The monopoly privileges . . . are neither unlimited nor primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired . . . [T]his task involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand.\textsuperscript{185}
\end{quote}

One issue that has never been resolved by utilitarian theorists is how to quantify or codify net social welfare. Three distinct schools of thought have emerged: the incentive theory, the optimizing patterns of productivity theory, and the rivalrous invention theory. The incentive theory focuses on maximizing the creation of original works, and supporters believe maximization can be achieved only by offering creators an

\begin{itemize}
\item U.S. CONST. art. I, § 8, cl. 8.
\item See Fisher, Theories, supra note 174, at 7.
\item 286 U.S. 123, 127-28 (1932).
\item Id. at 127.
\end{itemize}

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increased term for copyright protection. The optimization school of thought focuses on disseminating information about specific consumer demands to intellectual creators and encouraging them to respond to those demands. According to this perspective, consumer welfare is maximized when consumers are getting exactly what they want. The invention school of thought seeks to minimize the waste occurring when a large number of people compete to become the first creator of a work. Only the first creator will obtain the copyright; therefore, the efforts of the others constitute waste. Disagreements over which approach best serves the interests of creators and the public have added to the confusion over how to apply the fair use doctrine.

186 See Fisher, Theories, supra note 174, at 14-15 (stating that under the incentive theory “[e]ach increase in the duration or strength of [copyright protection] … stimulates an increase in inventive activity. The resultant gains to social welfare include the discounted present value of the consumer surplus and producer surplus associated with the distribution of the intellectual products whose creation is thereby induced.”). See generally William D. Nordhaus, INVENTION, GROWTH, AND WELFARE: A THEORETICAL TREATMENT OF TECHNOLOGICAL CHANGE (1969).
187 Fisher, Theories, supra note 174, at 15 (stating that the utilitarian strategy of optimizing patterns of productivity in copyright law should be designed to “let potential producers of intellectual products know what consumers want and thus channel[ ] productive efforts in directions most likely to enhance consumer welfare”) (citing Paul Goldstein, COPYRIGHT’S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX 178-79 (1994); Harold Demsetz, Information and Efficiency: Another Viewpoint, 12 J. L. & ECON. 1 (1969)).
188 Id.
190 Id.
1. **Utilitarian Theory and Fair Use**

With its focus on maximizing social welfare, utilitarianism is both supportive of and resistant to the fair use doctrine. The idea that the majority of fair users make some effort to transform original works suggests that the fair use doctrine is socially beneficial, as those who want to use an original work for larger purposes, but are not able to overcome high transaction costs, receive protection under the fair use doctrine. It could be argued that fair use exerts a negative impact on societal welfare by inhibiting the widespread dissemination of copyrighted works, but without adequate protection against imitation, artists would be discouraged from investing themselves in new works, causing a net loss to society.\(^{191}\) In short, utilitarian theorists have recognized the need to balance countervailing public and private considerations and have developed economic models in support of this need, but so far these models have proven insufficient for helping courts strike such a balance.\(^{192}\)

Several other factors stand in the way of applying the utilitarian theory to fair use. In their effort to balance creative incentives with societal benefits, utilitarian theorists often ignore the real costs of enforcing copyrights through litigation.\(^{193}\) Furthermore, the current *ad hoc* approach to fair use can stymie users who want to identify their rights,

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\(^{191}\) *See supra* note 35. The same concerns arise in patent law. *See* Lim, *supra* note 178, at 567 (commenting that “[i]n the absence of protection against imitation by others, an inventor will keep his invention secret. This secret will die with the inventor, and society will lose the new art.”).

\(^{192}\) *See* Fisher, *Theories, supra* note 174, at 16, 20 (stating, “Serious difficulties attend efforts to extract from any one of the [schools of thought] answers to concrete doctrinal problems. … Even if the difficulties specific to each of the three economic approaches could be resolved, an even more formidable problem would remain: there exists no general theory that integrates the three lines of inquiry. How should the law be adjusted in order simultaneously (i) to balance optimally incentives for creativity and concomitant efficiency losses, (ii) to send potential producers of all kinds of goods accurate signals concerning what consumers want, and (iii) to minimize rent dissipation?”).

\(^{193}\) *See generally* Lacey, *supra* note 112.
stopping potentially legitimate fair uses and negatively affecting societal welfare. 194 On the other hand, some parties may use a work unfairly and become “free-riders” if the copyright holder cannot afford to litigate, reducing the incentive to create new works. 195 Neither scenario upholds the utilitarian ideal.

2. Utilitarianism and Market Benefits

The utilitarian model encourages a finding of fair use when an unlicensed use benefits the copyright holder’s market in cases and there are high transaction costs to licensing. Not only does a larger audience gain access to the artist’s or author’s work, but the artist or author reaps financial benefits without additional effort. In circumstances where a creator lacks the financial resources to penetrate a new market, copying can result in significant economic rewards. But utilitarianism also touches on the concept of laches—that is, not rewarding those who “sleep on their rights.” 196 According to the laches principle, artists and other creators who fail to enter all possible markets when transaction costs are low should not be allowed to restrict the entrepreneurial endeavors of others. 197 In utilitarian terms, net social welfare is maximized when enterprising individuals are rewarded at the same time that incentives for creators of original works are preserved. 198 Accordingly, if the net result of an unlicensed use is a benefit to the copyright holder’s market, then there is no disincentive, and the use should be allowed.

194 Id. at 1554-8.
195 Id. at 1554.
197 See id.
198 See Landes & Posner, supra note 34.
Copyright holders often refuse to offer licenses because of moral or artistic objections rather than high transaction costs. They seek to protect the personal or social values of their works, values that are disregarded in mechanical market analyses. Copyright holders’ unwillingness to detach themselves from their works nullifies legal reliance on licensing fee rationales. Utilitarian theorists tend to conduct fair use inquiries in light of licensing transaction costs absent litigation, but they offer little guidance where there is no market for a license between the copyright holder and the unlicensed user or between the copyright holder and other users.

B. Labor Theory

Originating from John Locke’s natural rights concept, labor theory suggests that the state’s primary responsibility is to protect natural property rights that emerge when an individual creates a new work from sources with no prior ownership, i.e., resources that are “held in common.” Courts have drawn upon labor theory when acknowledging the importance of rewarding artists and other creators for their labor. For example, in Mazer v. Stein, Justice Reed of the U.S. Supreme Court invoked labor theory when

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199 This is often the case with uses that are transformative, especially parodies, as artists do not want to see their works ridiculed. See Patry & Perlmutter, supra note 70, at 687 (“The problem of defining the market is particularly acute where the use is one that the copyright owner disapproves of and is unlikely to exploit or authorize at any price, such as parody. As a derivative work, parody could be viewed as a potential market available for licensing. Because it is almost unheard of for a copyright owner to welcome or even willingly tolerate mockery, however, allowing him or her to retain a veto over such uses raises a real threat of censorship.”).


201 See, e.g., Jeweler’s Circular Publg. Co. v. Keystone Publg. Co., 281 F. 83, 95 (2d Cir. 1922) (holding that “[n]o one could legally take the results of the labor and expense which another had incurred … , and thereby save himself ‘the expense and labor of working out and arriving at those results by some independent road’” (quoting Jefferys v. Boosey, 4 H.L.C. 815, 10 Eng. Rep. 681 (1854)); CCC Information Services, Inc. v. Maclean HunterMarket Reports, Inc., 44 F.3d 61, 65 (2d Cir. 1994) (holding that market compilations manifesting originality were entitled to protection by copyright laws); Boucher v. Du Boyes, Inc., 253 F.2d 948, 949-50 (2d Cir. 1958) (holding that defendants had deliberately copied
stating, “Sacrificial days devoted to . . . creative activities deserve rewards commensurate with the services rendered.” The majority in *Mazer* found protecting the incentives of creators a secondary concern and held that copyrighted statuettes replicated in manufactured lamp bases were not the type of creative works protected by U.S. copyright law.

The most common criticism of applying labor theory to intellectual property law is that labor performed with a resource “held in common” does not necessarily entitle the laborer to a property right in a work that includes the commonly-owned resource. This theory also raises the difficult issue of determining which resources are truly held in common. Generally accepted categories include facts, languages, cultural heritage, and ideas, but problems easily arise in deciding individual cases. Last, defining intellectual labor is considered an ambiguous goal, one which lacks consensus within the legal community.

plaintiffs’ articles of costume jewelry and that said items were artistic in nature and therefore entitled to the protection of copyright laws).


Id.


See Fisher, *Theories, supra* note 174, at 24-25 (“Similar troubles arise when one tries to apply Locke’s conception of ‘the commons’ to the field of intellectual property. What exactly are the raw materials, owned by the community as a whole, with which individual workers mix their labor in order to produce intellectual products?”).

Id. at 23 (“Perhaps the most formidable is the question: What, for these purposes, counts as ‘intellectual labor’? There are at least four plausible candidates: (1) time and effort (hours spent in front of the computer or in the lab); (2) activity in which one would rather not engage (hours spent in the studio when one would rather be sailing); (3) activity that results in social benefits (work on socially valuable inventions); (4) creative activity (the production of new ideas).”).
With an emphasis on rewarding creators for their efforts, some courts have shown an affinity for labor theory in copyright case rulings.\textsuperscript{207} The U.S. Court of Appeals for the Second Circuit in \textit{Jeweler’s Circular Publg. Co. v. Keystone Publg. Co.} relied on labor theory in stating that “one could legally take the results of the labor and expense which another had incurred in the publishing of his work, and thereby save himself the expense and labor of working out and arriving at those results by some independent road.”\textsuperscript{208} But the Court did not allow such a practice, finding that the defendant infringed the plaintiff’s copyright on a jewelry directory.\textsuperscript{209} However, there is also ample evidence that more recently, some courts, including the U.S. Supreme Court, have generally discounted labor theory.\textsuperscript{210} In \textit{Feist Publications, Inc. v. Rural Telephone Services Co.},\textsuperscript{211} the Supreme Court ruled that labor theory was inconsistent with the language of the Copyright Acts of 1909 and 1976:

\begin{quote}
It may seem unfair that much of the fruit of the compiler’s labor may be used by others without compensation. As Justice Brennan has correctly observed, however, this is not “some unforeseen byproduct of a statutory scheme.” It is, rather, “the essence of copyright,” and a constitutional requirement. The primary objective of copyright is not to reward the labor of authors, but “[t]o promote the Progress of Science and useful Arts.”\textsuperscript{212}
\end{quote}


\textsuperscript{208} \textit{Jeweler’s Circular Publg. Co.}, 281 F. at 95.

\textsuperscript{209} \textit{Id.}

\textsuperscript{210} \textit{See generally} Yankee Candle Company, Inc. v. Bridgewater Candle Co., 259 F.3d 25, 35 (1st Cir. 2001) (holding that there was no infringement of copyrights for labels of nine candle fragrances).

\textsuperscript{211} 499 U.S. 340 (1991) (holding that telephone directory lacked requisite originality, and as such was not entitled to copyright protection).

Some scholars have questioned the legal reasoning in *Feist* contending that Congress has implicitly validated labor theory in not responding to *Jewelers’ Circular Publg. Co.*, and a number of lower courts continue to rely on labor theory principles.

1. **Labor Theory and Fair Use**

   At first glance, the fair use doctrine and labor theory appear in conflict. Because labor theorists equate copyrights with rewards for creators, they perceive that treating unlicensed uses as fair interferes with the natural rights of copyright holders. They want to ensure copyright holders are properly compensated for their investments; consequently, proponents of this theory argue that restricting public access to copyrighted works is an unavoidable by-product of safeguarding natural rights.

   Labor theory and fair use principles might harmonize in cases where unlicensed users transform original works. Parodies, criticisms, and commentaries represent an investment of time, labor, and capital; therefore, secondary creators should arguably also be rewarded for their contributions to the public domain. Nevertheless, the labor theory perspective could also be used to argue that unlicensed users—unlike original creators—are not using resources “held in common,” but resources to which the copyright holder holds private economic rights.

2. **Labor Theory and Market Benefits**

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213 See *Lewis*, supra note 207, at 191-192 (noting that the *Feist* Court “never cited an authority to refute the idea that Congress may have implicitly recognized the labor theory as a valid, albeit judicially-developed, standard for originality in compilations”).

214 See, e.g., id. at 186; *Jeweler’s Circular Publg. Co.*, 281 F. at 95.


216 See generally *Lacey*, supra note 112; Lim, supra note 179; Dane S. Ciolino & Erin A. Donelon, *Questioning Strict Liability In Copyright*, 54 Rutgers L. Rev. 351 (2002).
As an absolutist principle, labor theory generally promotes the idea that creators should receive ultimate control over their creations.\textsuperscript{217} Natural rights purists believe in protecting the “fruits” of a creator’s labor and tend to look unfavorably on unlicensed uses.\textsuperscript{218} But if the purpose of copyright protection is to reward creators for their investments, any use that enhances the copyright holder’s market should be part of that reward. The absolutist position collapses when a combination of the copyrighted and unlicensed uses provides greater rewards to a copyright holder than the copyrighted use alone.

C. \textbf{Personality Theory}

Based on the writings of Immanuel Kant and Georg Wilhelm Friedrich Hegel, personality theory supports private property rights only to the extent that they “promote human flourishing” via the preservation of such human needs as self-expression and personal identity.\textsuperscript{219} According to this theory, expressive or moral rights should outweigh protecting the economic incentives of copyright holders.\textsuperscript{220} Personality theorists view copyright law as a vehicle for protecting creators against unlicensed uses that challenge their identities or personalities as expressed in their works. Such protections, according to these theorists, promote a society that encourages intellectual creativity.\textsuperscript{221}

\begin{flushright}
\textsuperscript{218} \textit{See} Gordon, \textit{Self-Expression, supra} note 204, at 1540; Lacey, \textit{supra} note 112, at 1541.
\textsuperscript{219} \textit{See} Fisher, \textit{Theories, supra} note 174, at 5-6.
\textsuperscript{220} \textit{See, e.g., id.; Justin Hughes, Fair Use Across Time, 50 UCLA L. REV. 775, 794-6 (2003); Lacey, supra note 112, at 1532, 1541-43.}
\textsuperscript{221} \textit{See id.}
\end{flushright}
The personality theory is popular in Europe, perhaps because its moral rights focus is compatible with the core of the European civil law system. Moral rights have been largely rejected in the United States, but according to legal scholar Justin Hughes, certain aspects of a creator’s personality—for instance, a painter’s artistic expression—deserve the same protection as genetic research or other forms of labor-intensive intellectual activities. Personality theorists support the view that pursuits like painting and writing, as mental rather than physical activities, embody more of the creator’s individuality, and therefore the works that result should not be treated as objects that stand apart from their originators. Critics of personality theory refute the idea that certain human needs can clearly be determined as fundamental. The challenge of defining needs as essential or peripheral is problematic when determining what forms of


223 See, e.g., Gilliam v. American Broadcasting Co., 538 F.2d 14, 24 (2d Cir. 1976) (“American copyright law, as presently written, does not recognize moral rights or provide a cause of action for their violation, since the law seeks to vindicate the economic, rather than the personal rights of authors.”); Roberta Rosenthal Kwall, Copyright and the Moral Right: Is an American Marriage Possible?, 38 Vand. L. Rev. 1 (1985); Monica E. Antezana, Note, The European Union Internet Copyright Directive as Even More Than It Envisions: Toward a Supra-EU Harmonization of Copyright Policy and Theory, 26 B.C. Int’l & Comp. L. Rev. 415 (2003) (“Such works are not simple commodities, but rather enjoy synonymy with the creator’s identity. Copyright theory, recognizing authorial importance in this way, is thus sharply prejudiced in favor of the author and stands, with only a few narrow exceptions, for strong copyright protection for authors. It is this concept of ‘moral rights’ that the United States has hesitated to incorporate into its own copyright laws.”) (citing Craig Joyce, et al., COPYRIGHT LAW (5th ed. 2001)).

224 Hughes, Philosophy, supra note 49, at 330-50.

225 See Lacey, supra note 112, at 1541-42 (citing Georg Wilhelm Friedrich Hegel, PHILOSOPHY OF RIGHT 51 (T. M. Knox trans. 1952); Immanuel Kant, Of The Injustice in Counterfeiting Books, in 1 ESSAYS AND TREATISES ON MORAL, POLITICAL, AND VARIOUS PHILOSOPHICAL SUBJECTS 225, 229-30 (W. Richardson trans. 1798); Margaret Jane Radin, Property and Personhood, 34 Stan. L. Rev. 957 (1982); Martin A. Roeder, The Doctrine of Moral Right: A Study in the Law of Artists, Authors and Creators, 53 Harv. L. Rev. 554, 557 (1940)).

226 See Lacey, supra note 112, at 1542.
expression deserve protection.\textsuperscript{227} Furthermore, U.S. property law emphasizes economic rights which are hard to reconcile with personality theory.

1. \textit{Personality Theory and Fair Use}

Personality theory highlights the relationship between creators and their creations, making societal benefits a secondary concern that are often considered irrelevant.\textsuperscript{228} In accordance with the theory’s ultimate objective of preserving the creator’s personality, fair uses are largely non-existent because otherwise the use of creators’ personalities without permission would be legitimized.\textsuperscript{229} Thus, personality theorists object to the potential distribution of artists’ and authors’ personalities in ways that they never intended; these scholars argue that fair use removes all discretion over how expressions of artists’ and authors’ personalities are used.\textsuperscript{230}

However, personality theorists might recognize instances of fair use where the purpose of an unlicensed use is not to replicate the copyright holder’s mode of expression, and the nature of the copyrighted work at issue is more factual or functional than a vehicle of personal expression.\textsuperscript{231} For example, in \textit{Campbell v. Acuff-Rose Music, Inc.}, the U.S. Supreme Court suggested that fair use may be easier to establish for purely factual compilations (such as news broadcasts) than for more expressive works (such as motion pictures).\textsuperscript{232} This suggestion goes to the core of personality theory. Personality theorists support such a notion because it gives weight to the expressive value of art.

\textsuperscript{227} See Fisher, \textit{Theories}, supra note 174, at 28-29 (citing Jeremy Waldron, \textit{The Right to Private Property} 295-97, 302-06, 308-10 (1988)).
\textsuperscript{228} Id. at 28-29.
\textsuperscript{229} See id. at 9.
\textsuperscript{230} See Lacey, supra note 112, at 1583.
\textsuperscript{231} See Hughes, \textit{Philosophy}, supra note 49, at 339-44.
2. Personality Theory and Market Benefits

Personality and moral theorists would probably consider the fourth fair use factor largely irrelevant because they discount the economic effects of unlicensed uses. Instead, since they emphasize rights of creators to authorize the use of their personalities, these theorists believe that most creators are unlikely to exchange that authority for monetary gain. In the absence of economic considerations, it is highly unlikely for personality theory to affect how courts weigh an unlicensed use’s beneficial effect on a copyright holder’s market.

Personality theory, however, fails to address the question of how to factor moral considerations into the fair use equation, as there is no systematic way of determining when unlicensed uses become affronts to creators’ self-identities or personalities. Copyright holders could use a moral defense as a guise for economic gain, especially where there are possible market benefits from an unlicensed use. Because U.S. copyright law includes a strong economic bias, considering market enhancement in accordance with the constraints of personality theory would require a re-evaluation of the underlying reasons for granting copyright protection. Consequently, the theory is perhaps more useful for critiquing the copyright system than for analyzing individual cases that arise under the current system.

D. Social Planning Theory

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See supra notes 219-20 and accompanying text discussing how personality theorists view economic concerns as secondary to creators’ moral rights.

See Hughes, Philosophy, supra note 49, at 795-96.
Social planning theory recognizes property rights in general and intellectual property rights in particular when they promote the development of a just society. Proponents of the theory argue that to achieve this goal, three important changes must be made to current copyright law: a) the copyright term must be shortened to increase the number of works available in the public domain for creative manipulation; b) the authority of copyright owners to control the preparation of derivative works must be curtailed; and c) compulsory licensing systems must be created in order to balance the interests of creators and consumers. The usefulness of social planning theory in interpreting intellectual property law is severely limited when compared to the three theories discussed above, especially because no universal definition exists for a “just and attractive society” or the elements necessary to create such a society. Indeed, the particular elements of such a society have been the subject of debates among political philosophers for centuries. Even if social philosophers could agree on the definition of

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237 See Fisher, *Theories*, supra note 174, at 7-8 (citing Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283 (1996); Neil Weinstock Netanel, *Asserting Copyright’s Democratic Principles in the Global Arena*, 51 VAND. L. REV. 217 (1998)). A criticism of this third proposal, creating “compulsory licensing systems,” is that the proposal is an economic solution to a moral problem. But it is impossible to legislate or adjudicate the methods for developing a just (moral) society. A spectacularly failed example of such an effort is Jeremy Bentham’s *A Table of the Springs of Action*, a lengthy work that attempts to “codify” emotions. In the absence of objective moral criteria, it makes sense to rely on an economic framework to create a system for awarding rights and punishing wrongs.
a hypothetical utopia, it would be difficult to apply that vision to the specific doctrinal
issues associated with intellectual property law.240

1. Social Planning Theory and Fair Use

Social planning theory is consistent with fair use when a finding of fair use serves
the public interest without inhibiting production or consumption.241 Production includes
an artist’s or author’s motivation to create new works, and social planning theorists reject
a use if it affects that motivation.242 Consumption includes any effects on a copyright
holder’s potential market, and therefore social planning theorists also reject a use if it
interferes with the copyright holder expanding current markets or accessing new ones.243

The ultimate goal of social planning theory is to stimulate progress in the sciences and
arts, and therefore its supporters reject uses that discourage future artists and authors
from adding to the public domain.244 On the other hand, they support any use that
extends creative works to people who would otherwise not have access to them.245

Social planning theorists also place importance on how fair use contributes to
common community goals246—that is, the greater the connection of a work to a
community’s shared values, the greater the need for fair use to support its widespread

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240 For example, consider its application to parodies. See Fisher, Theories, supra note 174, at 36 (“[On the
one hand,] parody erodes the control over the meanings of cultural artifacts exerted by powerful institutions
and expands opportunities for creativity by others. On the other hand, parodies … may cut seriously into
the legitimate personhood interests of the artists who originally fashioned the parodied artifacts. Which of
these two concerns should predominate must be determined by reflection on the cultural context and
significance of individual cases. The social vision on its own does not provide us much guidance.”).
241 See Lacey, supra note 112, at 1565.
242 See O’Rourke, supra note 41.
243 See Lacey, supra note 112, at 1565-66.
244 Id. at 1565 (“The social functioning theories do not center around the property holder, but rather focus
on society at large. They assume that without the incentive of private property ownership, there will be no
production of property, and society will stagnate. … These theories animate the purpose commonly
supposed to be behind the copyright clause—to stimulate the progress of “Science and useful Arts.”) (citing
Frank I. Michelman, Property, Utility and Fairness: Comments on the Ethical Foundations of “Just
Compensation” Law, 80 HARV. L. REV. 1165, 1206-08 (1967)).
245 See Fisher, Theories, supra note 174, at 33.
availability. These theorists believe that in most cases, it is possible to determine whether a work is truly or only marginally important to a community, and thus possible to make fair use determinations in specific cases. In many ways, social planning and utilitarian theorists share a common concern in terms of balancing the rights of copyright holders and the public interest.

2. Social Planning Theory and Market Benefits

Because this theory is more inclusive and supportive of community benefits, it often condones (and, in some cases, encourages) uses that benefit the copyright holder’s market. According to social planning theory, a commercial use that benefits an artist’s market is also likely to benefit the public. In a non-commercial setting, when copying meets a community’s need for education and awareness, the unlicensed user is providing a public service. Social planning theorists believe that in both cases, the community benefit outweighs the need to preserve the original artist’s exclusive rights.

In copyright cases with a net market benefit, social planning theory does not appear to disparage economic motives in the way that personality theory does. Rather,

246 See Lacey, supra note 112, at 1585-95.
247 See id. at 1586-87 (“In the context of the fair use defense, a communitarian-based definition of the ‘public interest’ not only is desirable for philosophical reasons, it also is the only one that makes sense. … The proper perspective on the fair use defense focuses on the extent that the work contributes to the common goals of the community. The greater the relationship of the work of art to the shared values of the community, the greater the need for widespread availability.”) (citing Fisher, Fair Use, supra note 70, at 1744-79).
248 See Lacy, supra note 112, at 1585-95.
249 See id. at 1593.
250 See generally id. at 1588-90 (“Political information, which contributes to the debate about the very nature of our government and its policies, is of the greatest value to a community. This is the explicit assumption the Supreme Court repeatedly has applied in giving the greatest first amendment protection to political speech. If it is correct, then information serving this first amendment interest should constitute the most ideal example of fair use. For example, photographs of the Vietnam War’s My Lai massacre provided a universal benefit by increasing awareness of and stimulating debate on the country’s military policy. Educational and artistic works similarly satisfy important public needs.”).
251 See generally id. at 1586-87 (“The greater the relationship of the work of art to the shared values of the community, the greater the need for widespread availability.”).
the benefit to the copyright holder’s market combined with the public’s access to additional works is a step toward developing a more just society. Therefore, any scenario that provides positive outcomes for both private creators and the public should be consistent with social planning theory.

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The search for theoretical underpinnings to address the issue of fair use provides much knowledge but little guidance. While proponents point to copyright scenarios rooted in their particular ideas, the reality is that each theory has its own “ambiguities, internal consistencies, and [a] lack of empirical information,”252 all of which prevent theory alone from offering a concrete solution to how courts should balance the competing rights of copyright holders and the public. Nevertheless, these theories do illuminate key areas, such as the importance of protecting private economic rights juxtaposed with enhancing the quality and quantity of new works accessible to the public, which will support the fair use framework explained in this article.

IV. MARKET ENHANCEMENT AND THE COURTS

In 1922, a U.S. district court considered the possible beneficial effects to the copyright holder’s market from the playing of music in a movie theater (without the copyright holder’s permission), and ruled that the possible increase in sales of the original music was immaterial to the allegations of infringement.253 The subsequent evolution of fair use law makes it doubtful any court today would rule the same way, but there remains a considerable amount of inconsistency in how courts weigh the potential

252 See Fisher, Theories, supra note 174, at 13 (“Unfortunately, all four theories prove in practice to be less helpful in this regard than their proponents claim. Ambiguities, internal inconsistencies, and the lack of crucial empirical information severely limit their prescriptive power.”).

benefits to a copyright holder’s market from an unlicensed use. In this section, I will identify patterns in the rulings of various courts which have considered market benefit, beginning with cases in which courts did not find fair use under such circumstances and ending with cases in which courts did.\textsuperscript{254}

A. Findings Against Fair Use

Courts have created various rationales for discounting the possible benefit to a copyright holder’s market from an unlicensed use. According to one rationale, the loss of licensing royalties from an unlicensed use generally outweights the potential sales revenues from an increased market. A second rationale is that unlicensed uses may eliminate copyright owners’ abilities to enter new markets and license their works to other users. In a third category of cases, courts have found unfair an unlicensed use because the unauthorized user acted in bad faith.

1. Preserving the Copyright Holder’s Right to License to User

Courts have repeatedly found unlicensed uses unfair where they have perceived that the copyright holder lost (real or fictitious) opportunities to receive financial benefits from licensing the copyrighted work to an unlicensed user. In \textit{DC Comics, Inc. v. Reel...}

Fantasy, Inc.\textsuperscript{255} Reel Fantasy named one of its comic book stores “The Batcave” and displayed in its advertising a large number of symbols from the Batman comic book series, which was copyrighted by DC Comics.\textsuperscript{256} DC Comics sued for copyright infringement, and the U.S. Court of Appeals for the Second Circuit reversed a district court’s entry of summary judgment in favor of the defendant on its fair use claim. The court stated that by using the “Batcave” name and Batman symbols without permission, Reel Fantasy robbed DC Comics of the opportunity to license its copyrights to the comic book store in order to earn royalties.\textsuperscript{257} According to the appellate court, even though Reel Fantasy had advertised Batman comic books—which might have increased sales of the plaintiff’s products—the potential market for licensing was actually decreased,\textsuperscript{258} with the copyright holder being in “the best position to balance the prospect of increased sales against revenue from a license.”\textsuperscript{259} Ironically, the court never analyzed whether a market for such a license existed.

The case of Iowa State U. Research Found., Inc. v. American Broadcast Co., Inc.\textsuperscript{260} presents an example of circumstances under which a market to license the copyrighted work to an unlicensed user probably did exist. The federal district court found—despite that the unlicensed copying possibly enhanced the copyright holder’s market—that the American Broadcasting Company’s (ABC’s) use in their Olympic

\textsuperscript{255} 696 F.2d 24, 28 (2d Cir. 1982).
\textsuperscript{256} Reel Fantasy also used images of Batman and Green Arrow (another copyrighted character of DC Comics) in its store displays.
\textsuperscript{257} Id.
\textsuperscript{258} Id.
\textsuperscript{259} Id. For an example of a court making a similar finding, see Ringgold v. Black Ent., 126 F.3d 70, 80-81 (2d Cir. 1997). When HBO used Faith Ringgold’s poster, “Church Picnic,” as a set decoration without permission, the copyright holder argued that she was denied the opportunity to negotiate a licensing fee for use of the poster, which she had done with other users in the past. The court, in an opinion which referenced DC Comics, 696 F.2d at 28, found, “Even if the unauthorized use of plaintiff’s work in the
Games broadcasts of the plaintiff’s copyrighted videotape of an Olympic wrestler violated the plaintiff’s right to license the work to ABC. The court also noted that royalties would have exceeded any possible benefit to the plaintiff’s market. The U.S. Court of Appeals for the Second Circuit agreed, adding that the plaintiff’s potential licensing revenues which could have been realized by the plaintiff were especially critical because the defendant had a monopoly on the Olympic Games coverage.

One court took the licensing variable a step further and defined its role as protected the copyright holder’s choice of whether to license its work, even if it would have chosen not to do so. In Storm Impact, Inc. v. Software of Month Club, the defendant (a shareware distribution company) provided versions of the plaintiff’s truncated shareware to its customers. The plaintiff offered the public free access to the same two truncated computer games via the Internet, but members of the public had to pay a registration fee to the plaintiff if they wanted full access to the games. The defendant claimed that by distributing the plaintiff’s truncated shareware, it increased the demand for the plaintiff’s complete software product. But the plaintiff contended that it received complaints from potential customers about both the defendant’s poor technical support and payment of a registration fee to the plaintiff after the defendant had already been paid, both of which, the plaintiff argued, reduced the chances that users would buy

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260 Ringgold, 126 F.3d at 81 n.16 (citing DC Comics, 696 F.2d at 28).
262 Id. at 905.
263 Iowa State, 621 F.2d at 62.
265 Id. at 788.
the complete version of the software.\textsuperscript{266} The court accepted the plaintiff’s contention,\textsuperscript{267} while shortchanging the defendant’s evidence of possible market enhancement.

In dismissing the defendant’s argument, the Illinois federal district court quoted the U.S. Supreme Court decision in \textit{Harper & Row, Publishers, Inc. v. Nation Enters.} in which the Court stated that “any copyright infringer may claim to benefit the public by increasing public access to the copyrighted work . . . but Congress has not designed, and we see no warrant for judicially imposing, a ‘compulsory license’ [on copyrighted works].”\textsuperscript{268} At the heart of the district court’s decision was the belief that whether the plaintiff would have licensed the shareware to the defendant was irrelevant as the court only had to preserve the copyright holder’s hypothetical choice of whether to license its shareware. Such analysis conflicts with that used by the courts in \textit{DC Comics, Inc.} and \textit{Iowa State.} The courts in those cases appeared to find that the royalties they believed the copyright holders would have earned by licensing their copyrights offset any benefit to the copyright holders’ markets.

\textbf{2. Preserving the Copyright Holder’s Right to License to Others}

In other cases, courts rejected evidence of unlicensed uses benefiting copyright holders’ markets where copyright holders claimed that they had been deprived of opportunities to license their works to other users.\textsuperscript{269} For instance, in \textit{Rubin v.}

\begin{itemize}
\item \textsuperscript{266} \textit{Id.} at 786.
\item \textsuperscript{267} \textit{Id.} at 789.
\item \textsuperscript{268} \textit{Id.} at 790 (citing \textit{Harper & Row Publishers, Inc. v. Nation Enters.}, 417 U.S. 539, 569 (1985)).
\item \textsuperscript{269} For a contemporary example of a court accepting this rationale, see \textit{UMG Recordings, Inc. v. MP3.Com, Inc.}, 92 F. Supp. 2d 349, 352 (S.D.N.Y. 2000), a case concerning MP3.com’s practice of copying CDs onto its server and allowing subscribers to download the music without paying any licensing fee to the plaintiffs. The court found that the “defendant’s activities on their face invade plaintiffs’ statutory right to license their copyrighted sound recordings to others for reproduction” and denied the defendant’s fair use claim. \textit{Id.}
\end{itemize}
Brooks/Cole Publg. Co., a publisher included the plaintiff’s copyrighted “Love Scale” (a self-test for students) in its Social Psychology textbook. The Massachusetts federal district court expressed doubt that the defendant’s actions created a “meaningful likelihood of harm to the current or potential markets for Rubin's existing or future textbooks and anthologies,” and even went so far as suggesting that publication of the “Love Scale” might have benefited the plaintiff’s market for the copyrighted self-test. Nevertheless, the court emphasized how the publisher’s unauthorized use interfered with Rubin’s ability to obtain licensing fees from other textbook publishers, and enjoined the publishing company from publishing additional text books that included the “Love Scale” included. In a partial victory for the defendant (and perhaps in recognition of the possible benefit to the plaintiff’s potential market), the court did not award any monetary damages to the plaintiff.

Several years later, the U.S. Court of Appeals for the Second Circuit reinforced the copyright holder’s exclusive right to license works to others. In Castle Rock Ent., Inc. v. Carol Publg. Group, Inc., the plaintiff (a television production company) filed suit for copyright infringement against the defendant-publishing company after the defendant published a trivia book with questions originating from the plaintiff’s Seinfeld television program. On appeal, the court upheld the decision of the district court (which denied the defendant’s fair use claim), even though the appellate court admitted that the

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271 Id. at 921.
272 Id.
273 Id. at 925. The court weighed the possibility of such licensing royalties even though, as the court admitted, the plaintiff had authorized other textbook publishers to publish his “Love Scale” free of charge and there was no established market for such licenses. See id. at 922.
274 See id. at 925.
275 150 F.3d 132, 133 (2d Cir. 1998).
book may have increased market demand for the television program.\textsuperscript{276} The court ruled that the plaintiff had a monopoly over the right to license or publish derivative works, even though it had no intention of doing so.\textsuperscript{277}

In two similar cases, the courts also denied fair use claims to protect the licensing rights of copyright holders in derivative markets. In \textit{Twin Peaks Productions, Inc. v. Publications Intl., Ltd.},\textsuperscript{278} the defendants published detailed plot summaries of \textit{Twin Peaks} television episodes in a book about the television show, and the copyright holder of the \textit{Twin Peaks} program sued for infringement. In denying the defendants’ fair use claim, the U.S. Court of Appeals for the Second Circuit stated that even though the “appellants [including PIL, publisher of the book \textit{Welcome to Twin Peaks: A Complete Guide to Who’s Who and What’s What,}] may be correct in arguing that works like theirs provide helpful publicity and thereby tend to confer an economic benefit on the copyright holder, we nevertheless conclude that the book competes” with the production company’s market interests in licensing plot summaries to other users.\textsuperscript{279}

Similarly, in \textit{Paramount Pictures Corp. v. Carol Publg. Group, Inc.},\textsuperscript{280} a New York federal district court found that an unauthorized \textit{Star Trek} book interfered with the plaintiff’s market for licensing guidebooks and other derivative works related to its \textit{Star Trek} television program. Both in \textit{Twin Peaks} and \textit{Paramount Pictures}, the courts

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\textsuperscript{276} \textit{Id.} at 146.
\textsuperscript{277} \textit{Id.} at 145-146. In this case, the court seems to be protecting the plaintiff’s rights to develop its derivative markets even though it had no intention of doing so. \textit{Compare} Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 111 (2d Cir. 1998) (denying fair use claim where unlicensed user entered derivative markets which the copyright holder had an undisputed ability and willingness to pursue); Higgins v. Detroit Educ. Television Found., 4 F. Supp. 2d 701, 708-710 (E.D. Mich. 1998) (stating, “Where, on the other hand, the copyright holder clearly does have an interest in exploiting a licensing market—and especially where the copyright holder has actually succeeded in doing so—it is appropriate that potential licensing revenues for photocopying be considered in the fair use analysis.”).
\textsuperscript{278} 996 F.2d 1366, 1377 (2d Cir. 1993).
\textsuperscript{279} \textit{Id.} at 1377.
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protected what they perceived as the copyright holders’ exclusive rights to license their works to other users. In doing so, however, they begged the question of whether there was a market for such licenses in the first place.

3. Protecting Copyright Holders Against Unauthorized Users’ Bad-Faith Motives

The current J.K. Rowling suit against the New York Daily News likely falls within this subcategory of fair use cases. While the author of the Harry Potter series would most certainly not have licensed pre-release excerpts of Harry Potter and the Order of the Phoenix to the New York Daily News (even though pre-release publication of the excerpts possibly increased her market for the book), the newspaper’s motives likely militate against a finding of fair use. The newspaper had an undisputed profit motive to copy and publish the excerpts—to sell more newspapers than it would have sold otherwise—and presumably did so knowing of the potential illegality of copying from a book that had yet to be publicly disseminated. This, in combination with the damaging effect to the plaintiff’s reputation from the publication of her work in a tabloid newspaper, could influence a court to rule in Rowling’s favor.

Some courts have considered the alleged infringer’s bad-faith motives in finding a use unfair even though no court has done so in the context of considering whether the

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282 See, e.g., Rogers v. Koons, 960 F.2d 301, 309 (2d Cir. 1991); Original Appalachian Artworks, Inc. v. Topps Chewing Gum, Inc., 642 F. Supp. 1031, 1036 (N.D. Ga. 1986); DC Comics, Inc. v. Unlimited Monkey Business, Inc., 598 F. Supp. 110, 118-19 (N.D. Ga. 1984); Time, Inc. v. Bernard Geis Assoc., 293 F. Supp. 130, 146 (S.D.N.Y. 1968). But see Leval, Fair Use Standard, supra note 24, at 1126. Leval considers “good faith” to be a “false factor.” Id. He finds that factoring in good or bad faith when determining fair use “produces anomalies that conflict with the goals of copyright and adds to the confusion surrounding the doctrine.” Id. A contract model for intellectual property, such as the one suggested in Part VI, infra, overcomes Leval’s concern because, in contract law, the motive of the breaching party has historically been irrelevant.
use benefited the copyright holder’s market.\textsuperscript{283} Courts usually consider the unlicensed user’s motives in connection with the first factor.\textsuperscript{284} For instance, in \textit{Tin Pan Apple, Inc. v. Miller Brewing Co., Inc.}, the defendants copied the appearance and sound of the rap group Fat Boys in a beer commercial.\textsuperscript{285} The defendants moved to dismiss the complaint on the ground that their use was fair, but the court denied the motion and found that the defendants had likely acted in bad faith because they “had contacted plaintiffs … to appear in such a commercial but [plaintiffs] had declined. … Subsequently defendants put together the commercial in suit, using look-alikes of the individual plaintiffs.”\textsuperscript{286} The court concluded, “[I]t requires no effort to infer that, having been rebuffed by plaintiffs for such a commercial, defendants Miller and Backer proceeded to copy them. The finders of . . . fact could equate such conduct with bad faith and evasive motive on defendants’ part.”\textsuperscript{287}

The court did not find it necessary to consider all four fair use factors once it concluded that the defendants’ use was not a parody.\textsuperscript{288} So while the court did not consider explicitly whether the unlicensed use increased the rap group’s market for its work, such increase was possible, which the court would have overlooked in focusing on the motives of the alleged infringer.

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\item \textsuperscript{283} This category is included anyway because conceivably a court could discount evidence of a benefit to a copyright holder’s market in light of evidence that the unlicensed user acted in bad faith.
\item \textsuperscript{284} In \textit{Rogers v. Koons}, the court described the first factor as “whether the original was copied in good faith to benefit the public or primarily for the commercial interests of the infringer. … Knowing exploitation of a copyrighted work for personal gain militates against a finding of fair use. And—because it is an equitable doctrine—wrongful denial of exploitative conduct towards the work of another may bar an otherwise legitimate fair use claim. …” 960 F.2d 301, 309 (2d Cir. 1991) (citing MCA, Inc. v. Wilson, 677 F.2d 180, 182 (2d Cir. 1981); 3 \textsc{Melville B. Nimmer & David Nimmer, Nimmer on Copyright, § 13.05[A][1] (1991)).
\item \textsuperscript{285} 737 F. Supp. 826, 827-28 (S.D.N.Y. 1990).
\item \textsuperscript{286} \textit{Id.} at 832.
\item \textsuperscript{287} \textit{Id.} at 833.
\item \textsuperscript{288} \textit{Id.} at 832.
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B. Findings of Fair Use

In addition to sanction by Congress, legal precedent exists for findings of fair use, especially in cases where the unlicensed use potentially benefits the copyright holder’s market. Where such beneficial market effects exist, courts have clearly demonstrated their acceptance of uses that: a) are transformative, b) fulfill a public purpose, or c) pass the *Campbell v. Acuff-Rose Music, Inc.* balancing test.

1. Transformative Use Cases

Courts have regularly cited evidence of possible market enhancement in supporting fair use claims where the unlicensed uses are transformative. Even if those uses are part of commercial works, courts have looked favorably upon them because they

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289 Although a discussion of transformative use cases in which courts conclude that there is no evidence of market harm (but fail to consider possible market benefit) are beyond the scope of this article, courts resolve those cases the same way. See, e.g., Suntrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1274-1275 (11th Cir. 2001) (holding that a parody of *Gone With the Wind*, in which the author critiqued the original work’s treatment of slaves in the pre-Civil War South, was a transformative, socially beneficial fair use because the book did no harm to the copyright holder’s potential market). Courts talk about market enhancement, in part, to emphasize that there is no possibility of market harm, so it is not necessarily the case that where courts do not mention market benefit, there is no net benefit to the copyright holder’s market. Although the court in *Suntrust Bank* did not say so explicitly, transformative uses, by their very nature, increase demand for original works. See, e.g., Jackson v. Warner Bros, Inc., 993 F. Supp. 585, 591 (E.D. Mich. 1997) (noting that the depiction of artist’s copyrighted paintings within a movie scene did more to increase demand for the paintings than to hurt the artist’s market).

290 A transformative use is a use generally recognized as adding to the original, copyrighted work. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994) (framing question of transformative use as “whether the new work merely ‘supersedes the objects’ of the original creation or instead adds something new”) (quoting Folsom v. Marsh, 9 F. Cas. 342, 348 (C.C.D. Mass 1841)); *Sony*, 464 U.S. at 478 (Blackmun, J., dissenting) (holding that the key question as to whether defendant’s use is transformative is whether it “result[s] in some added benefit to the public beyond that produced by the first author’s work”); *Nunez v. Caribbean Int’l News Co.*, 235 F.3d 18, 21 (1st Cir. 2000) (holding reproduction of controversial, copyrighted modeling pictures in a newspaper is fair use because “it is this transformation of the works into news—and not the mere newsworthiness of the works themselves—that weighs in favor of fair use under the first factor of § 107”); Matthew C. Staples, Note, *Kelly v. Arriba Soft Corp.*, 18 BERKELEY TECH. L.J. 69 (2003). Making an exact copy of the original work, even if it is for educational or research purposes, is generally not recognized as a transformative use. See, e.g., *American Geophysical Union v. Texaco*, 60 F.3d 913, 924 (2d Cir. 1994) (holding that “the concept of a ‘transformative’ use would be extended beyond recognition if it was applied to [defendant’s] copying simply because he acted in the course of doing research”); Loren, *supra* note 38, at 30 (stating that courts view transformative users more favorably because they “create[e] new works that are adding value to society,” whereas non-transformative users are disfavored because their uses “do not involve any transformation of the authorship elements of the pre-existing work;” classroom copies are non-transformative yet fair because they are “productive”).
enhance the public domain instead of merely superseding the original works.\textsuperscript{291} At the same time, such uses do not undermine the economic incentives of artists and creators because, in these circumstances, copyright holders receive more of an economic benefit than they would have received absent the unlicensed use.\textsuperscript{292} In these cases, courts have attempted to balance all four fair use factors, but in practice they have tended to give greatest weight to the fourth factor.

For instance, the plaintiff in \textit{Hofheinz v. AMC Prod., Inc.}\textsuperscript{293} held the copyrights to many films produced by her late husband, James Nicholson, and sought to enjoin the defendants from using clips of those films in a documentary about Mr. Nicholson’s movie production company. The New York federal district court found the plaintiff was unlikely to succeed on the merits of her claim because the defendants could successfully avail themselves of a fair use defense.\textsuperscript{294} The court specifically emphasized the defendants’ transformative use of the film clips\textsuperscript{295} in making a documentary to educate the public.\textsuperscript{296} Furthermore, in reference to the fourth factor, the court commented on the likelihood that the documentary would increase the market demand for the plaintiff’s copyrighted works.\textsuperscript{297} This case is facially consistent with the balancing test outlined in \textit{Campbell} because the court analyzed all four fair use factors, even though the court

\textsuperscript{291} \textit{See, e.g., supra} notes 88-94 and accompanying text.
\textsuperscript{292} \textit{Id.}
\textsuperscript{293} 147 F. Supp. 2d 127 (E.D.N.Y. 2001).
\textsuperscript{294} \textit{Id. at} 136-37.
\textsuperscript{295} \textit{See id. at} 137-38.
\textsuperscript{296} \textit{Id. (“[D]efendants’ [d]ocumentary will likely be found to be “transformative” on the trial of this matter; it does not merely purport to supersede the original works at issue, but to create a new copyrightable documentary. While plaintiff’s copyrighted movies aimed to entertain their audience, defendants’ [d]ocumentary aims to educate the viewing public of the impact that Arkoff and Nicholson had on the movie industry. … The commercial nature of the [d]ocumentary, while significant, is not dispositive in light of the [d]ocumentary’s transformative nature.”) (citing Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 584 (1994)).
rested its decision on the fourth factor after determining that the defendants’ use was transformative in that it added to rather than merely copied the copyrighted movies.298

In *Nunez v. Caribbean Int’l News Corp.*,299 the plaintiff-photographer sued a newspaper for copyright infringement when the newspaper printed copyrighted photographs of “Miss Puerto Rico” alongside articles about the public controversy surrounding the beauty pageant winner. The Puerto Rico federal district court entered judgment in favor of the newspaper on its fair use claim, and the U.S. Court of Appeals for the First Circuit affirmed, ruling that the transformative use of the photographs300—as part of news articles to educate the public—offset the fact that the pictures were included in a commercial work.301 In its reference to the fourth factor, the court stated that the “only discernable effect [of the unlicensed use] was to increase demand”302 for the photographer’s work. The court also noted that the relevant market was not the photographer’s market for selling photographs generally but rather the market for selling

297 *Id.* at 137 (“The [d]ocumentary appears intended to add something of value rather than simply copying the copyrighted expression that it documents. Indeed, it seems likely to stimulate a market for the original rather than replace it.”).

298 In two similar cases, courts relied on the same considerations to find fair use. First, in *Video-Cinema Films, Inc., v. Cable News Network*, the defendant aired footage of the plaintiff’s copyrighted film (*The Story of G.I. Joe*) during news stories about the death of actor Robert Mitchum. 2001 U.S. Dist. LEXIS 15937 (S.D.N.Y. 2001). In holding that the use of the film clips was a fair use, the court stated that as to the fourth factor, the clips do not compete with the original film, but might increase demand for the film, *id.* at *30, *30 n.20, and rejected the claim that plaintiff was denied an opportunity to license uses of the film to the defendant or to other users. *Id.* at *30-31.

Second, in *Wright v. Warner Books, Inc.*, the defendant wrote a biography of author Richard Wright that included excerpts of Wright’s published and unpublished works. 953 F.3d 731 (2d Cir. 1991). The court found the defendants’ use of Wright’s works fair. *Id.* at 740. As to the fourth factor, the court observed that “[i]mpairment of the market … is unlikely,” and the use may in fact stimulate interest in the original works, thus increasing their market.” *Id.* at 739.

299 235 F.3d 18 (1st Cir. 2000).

300 *Id.* at 22 (“The more ‘transformative’ the new work, the less the significance of factors that weigh against fair use, such as use of a commercial nature.”).

301 *See id.* at 22-23 (“[B]y using the photographs in conjunction with editorial commentary, *El Vocero* did not merely ‘supersede the objects of the original creations,’ but instead used the works for ‘a further purpose,’ giving them a new ‘meaning, or message.’”) (quoting Campbell v. Acuff-Rose Music, 510 U.S. 569, 579 (1994)).
or licensing the reproduced photographs. In addition to possible benefit to the copyright holder’s market, the court found that since there was no potential market for licensing the reproduced photographs to any newspaper, the photographer could not make the claim that he had lost potential licensing fees.

2. **Per Se Cases**

A number of courts have made *per se* findings of fair use in cases in which an unlicensed use enhances the copyright holder’s potential market, regardless of the alleged infringer’s purpose in using the copyrighted work. The *per se* precedent exists despite the statutory mandate to weigh all four factors in fair use claims, and despite warnings in *Campbell* that lower courts should not rely exclusively on the fourth factor when making fair use determinations.

a. **Public Use**

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303 *Id.* at 24 (“[W]e should limit our analysis to the effect of the copying on the market for the reproduced photographs. The overall impact to Nunez’s business is irrelevant to a finding of fair use.”).

304 As early as 1965, a court focused exclusively on the fourth fair use factor in noting that defendants would have prevailed on its fair use claim had plaintiff established a prima facie case of infringement. *See* Mura v. Columbia Broad. Sys., Inc., 245 F. Supp. 587, 589 (D.C.N.Y. 1965). The defendants used the plaintiff’s copyrighted hand puppets on their television show, and the court found that there was no copyright infringement because such use did not fit the definition of “copying.” *Id.* at 589. But the court went on to consider the fair use question anyway and found that had infringement occurred, defendants’ use was fair because, if anything, the defendants increased sales of plaintiff’s puppets as defendants’ use of the puppets did not substitute for the plaintiff’s sales. *Id.* at 589. The court made its finding without considering other factors. *Id.*

305 *See* 17 U.S.C.A. § 107 (2003) (stating, “In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include,” the four factors listed within the statute); *see also* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 449 (1984) (interpreting the House Report on § 107 as “expressly stat[ing] that the fair use doctrine is an ‘equitable rule of reason,’” and Senate Committee Reports as finding “while not conclusive with respect to fair use, [the fourth factor] can and should be weighed along with other factors in fair use decisions.”); Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 549 (1985) (interpreting § 107 as requiring the consideration of all four factors because “[t]he statutory formulation of the defense of fair use in the Copyright Act reflects the intent of Congress to codify the common law doctrine,” and thus it “requires a case-by-case determination whether a particular use is fair, and the statute notes four nonexclusive factors to be considered.”).


307 A public use is one that furthers a governmental purpose such as education, public adjudication or criminal justice. *See* Part V, *infra*. Transformative uses, by their very nature, are public uses because they
In a post-*Campbell* decision, the U.S. Court of Appeals for the Ninth Circuit relied exclusively on the fourth factor in determining that the defendant’s use of the plaintiff’s copyrighted games during a children’s gaming tournament would have constituted fair use had there been a *prima facie* case of infringement. The court reiterated that Section 107 of the Copyright Act “allows the fair use of a copyrighted work in such instances as for nonprofit educational purposes and where the effect of the use upon the potential market for or value of the protected work is limited.” The court then noted that the “potential market for the subject games has in all likelihood increased because participants of the [gaming] tournament have had to purchase Allen’s games.”

Resting its decision on the fourth factor, the court made only a fleeting reference to the first three factors. The court stated, “Analysis of other factors involved in § 107 leads this court to conclude that the application of the fair use doctrine in this case is clearly appropriate.” Even though the defendant’s use was not transformative, the court would have allowed it had there been copying because it served the public purpose of education.

b. *Private Use*

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enhance the arts. The author believes that the dichotomy between commercial and non-commercial uses is over-emphasized. Some courts agree. See, e.g., Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 109 (2d Cir. 1998) (“We also note that the district court placed little or no emphasis on the commercial nature of Dial-Up. We agree that, notwithstanding its mention in the text of the statute, commerciality has only limited usefulness to a fair use inquiry; most secondary uses of copyrighted material, including nearly all of the uses listed in the statutory preamble, are commercial. As the Supreme Court observed in *Campbell*, to give commerciality a ‘presumptive force against a finding of fairness,’ would render the preamble a nullity.”) (quoting *Campbell*, 510 U.S. at 584) (citing Castle Rock Entertainment, Inc. v. Carol Publg. Group, Inc., 150 F.3d 132, 141-42 (2d Cir. 1998); American Geophysical Union v. Texaco, 60 F.3d 913, 921 (2d Cir. 1994)).

308 *Allen v. Academic Games League of Am., Inc.*, 89 F.3d 614 (9th Cir. 1996).
309 *Id.* at 617.
310 *Id.*
311 *Id.*
312 *Id.*
313 A private use is a use that is non-transformative and does not promote a governmental purpose, including many religious and some commercial uses. See Part V, *infra.*
The court’s decision in Haberman v. Hustler Mag., Inc.\textsuperscript{314} illustrates the \textit{per se} approach in a case where the unlicensed use was private. The copyright holder of two surrealist (fine art) photographs initiated a lawsuit against \textit{Hustler Magazine} for publishing images of commercially available postcards of the photographs. Although the opinion included a discussion of the first three factors, the court apparently dismissed the magazine’s profit motive and relied on the fact that the postcards were publicly disseminated to negate the need to protect the artist’s private economic rights.\textsuperscript{315} The court held that the plaintiff’s case “fattally falter\cite{212,211}” on the fourth fair use factor because the defendant’s use of the postcards had no effect on the sale, licensing, or exhibition of the plaintiff’s photographs.\textsuperscript{316} Perhaps more significantly, the court emphasized that postcard sales of the two copyrighted works increased after their publication in \textit{Hustler Magazine},\textsuperscript{317} evidence that sealed the defendant’s fair use defense.

The court recognized that the defendant sold \textit{Hustler Magazine} for profit, which normally would have militated against fair use.\textsuperscript{318} However, the court also agreed with the magazine’s claim that it published the two postcards with commentary to entertain rather than to sell magazines.\textsuperscript{319} That distinction is a fiction because the defendant published \textit{Hustler Magazine} to entertain its readers only in order to sell magazines.

Similarly, when analyzing the nature of the copyrighted work, the court found that the

\textsuperscript{315} See Haberman, 626 F. Supp. at 210-211.
\textsuperscript{316} \textit{Id.} at 212.
\textsuperscript{317} \textit{Id.}
\textsuperscript{318} \textit{Id.} at 210.
photographs deserved heightened protection because they were “creative, imaginative, and original”\(^{320}\) and “represent[ed] a substantial investment of time and labor in anticipation of a financial return.”\(^{321}\) Nevertheless, the court went on to discount the nature of the plaintiff’s copyrighted works because they had been made public in the form of postcards—an ironic twist in light of the court’s emphasis on the limited dissemination of the images.\(^{322}\) The court appears to have made its decision purely on the positive market benefits of the unlicensed use, without giving credence to other factors that might have weighed against a fair use finding.\(^{323}\)

3. Courts Using a Balancing Test

In the landmark case of *Campbell v. Acuff-Rose Music, Inc.*,\(^{324}\) the U.S. Supreme Court ruled that the extent to which an alleged infringer enhances the potential market for a copyrighted work must be measured in terms of degree and then balanced against the other three fair use factors.\(^{325}\) In stating that the benefit to a copyright holder’s market is only one variable in measuring fair use, the Court described a process of weighing all four fair use factors in a “sensitive balancing of interests.”\(^{326}\) The majority stated that

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319 Haberman, 626 F. Supp. at 211. Further, entertainment is not one of the permissible purposes for fair use listed in the Copyright Act. 17 U.S.C. § 107 (2003). While that list is not all-inclusive, the court offers no justification for why copying intended to entertain, absent anything else, is not exploitative.

320 Haberman, 626 F. Supp. at 211.

321 Id.

322 See id.

323 This is similar to the reasoning employed in *Amsinck v. Colum. Pictures Indus.*, where the court, in dicta, rejected a balancing approach to fair use and advocated a *per se* rule in cases where there was no harm from the unlicensed use and possible benefit to the copyright holder’s market. 862 F. Supp. 1044, 1048 (S.D.N.Y. 1994).


325 See *Campbell*, 510 U.S. at 590-91. Courts in other cases made similar analyses. See, e.g., Lish v. Harper’s Mag. Found., 807 F. Supp. 1090, 1104 (S.D.N.Y. 1992) (finding that without harm to the copyright holder’s potential market, it is likely that the fair use doctrine would not apply; however, the other factors must still be considered); Wright v. Warner Books, Inc., 953 F.2d 731, 739 (2d Cir. 1991) (balancing the four factors weighs in favor of fair use in the case of a biographer’s unauthorized use of private letters).

326 *Campbell*, 510 U.S. at 584 (citing Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 455 n.40 (1984)).
“[m]arket harm is a matter of degree, and the importance of this factor will vary, not only with the amount of harm, but also with the relative strength of the showing on the other factors.”

Lower courts have adopted the *Campbell* balancing test in this way.

a. **Public Use**

In a recent decision, *Bond v. Blum*, the U.S. Court of Appeals for the Fourth Circuit applied the *Campbell* balancing test to the defendants’ fair use claim made in response to charges that copying a manuscript for use in a child custody case violated the plaintiff’s copyright in the manuscript. Mr. Slavin and the law firm representing him introduced into evidence a book written by his former wife’s current husband entitled *Self Portrait of a Patricide: How I Got Away with Murder*. The court found defendants’ use fair. While recognizing that defendants’ verbatim copying of the entire manuscript militated against fair use under the third factor, the court emphasized that the defendants introduced the manuscript for its evidentiary value and not for its mode of expression. As to the market effect of the unlicensed use, the court, quoting the district court, stated, "Ironically, if anything, [the defendants' use] increases the value of the work in a perverse way, but it certainly doesn't decrease it." In balancing the four factors, the court relied heavily on the public nature of the unauthorized use, noting that “the public has an interest in retaining in the public domain ‘the right to discover facts’”—especially those facts constituting evidence in a judicial proceeding.

b. **Private Motivation**

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327 *Campbell*, 510 U.S. at 591.
328 317 F.3d 385, 392 (4th Cir. 2003).
329 *Id.*
330 *Id.* at 395.
331 *Id.*
332 *Id.* at 396-7 (citations omitted).
In *Jackson v. Warner Bros. Inc.*, the producers of *Made in America* used artwork by an African-American artist as part of the set for their movie without obtaining the artist’s permission. The plaintiff thought that the movie’s depiction of African-Americans was “culturally exploitative” and sued for copyright infringement. The court found the defendant’s use fair after balancing all four fair use factors and finding that only the second factor favored the plaintiff. The Michigan federal district court quoted *Campbell* in response to the defendant’s evidence that its use increased the sale of the plaintiff’s artwork—“that favorable evidence without more is no guarantee of fairness.” But interestingly, after noting that the defendant did not meet its burden under *Campbell* to show absence of market harm, the court went on to find that *Campbell* was distinguishable. According to the district court, in *Campbell*, there was evidence of substantial harm to a derivative market, and harm to the original market (as in *Jackson*) was not at issue. The court then gave substantial weight to the fourth factor and concluded that there was no showing that the defendant’s use harmed the market for the copyright holder’s art and that the factor therefore favored the defendant.

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333 *Id.* at 394 (quoting Superior Form Builders, Inc. v. Chase Taxidermy Supply Co., 74 F.3d 488, 492 (4th Cir. 1996)).
335 *Id.* at 587.
336 *Id.* at 585.
337 *Id.* at 591.
338 *Id.*
339 *Id.*
340 *Id.* The court relied on the four factors as set out by the court in *Amsinck v. Columbia Pictures Indus.*, Inc., 862 F. Supp. 1044, 1050 (S.D.N.Y. 1994). In that case, the court considered, “1) whether the use tends to interfere with sales of the copyrighted article; 2) whether the challenged use adversely affects the potential market for the copyrighted work; 3) whether the ‘copying’ can be used as a substitute for plaintiff’s original work; and, 4) whether the copyright owner suffers demonstrable harm.” *Id.* In *Amsinck*, the plaintiff’s work, a mobile, appeared in the defendant’s film for a total of one minute and thirty-six seconds. *Id.* at 1045-46. The court described the fourth factor as “whether the use tends to interfere with sales of the copyrighted article. … While the mere absence of measurable pecuniary damages does not require a finding of fair use, the less adverse the effect that the alleged infringing has on a copyright owner’s expectations of financial gain, the less public benefit need be shown to justify the use.” *Id.* at 1048-49.
Similarly, in *Hustler Mag., Inc. v. Moral Majority, Inc.*, the court balanced the fair use factors to conclude that despite defendants’ purely private use of an advertisement parody for fundraising purposes, the unauthorized use was fair.\(^{341}\) In 1983, *Hustler Magazine* published an ad parody featuring Reverend Jerry Falwell. Soon after publication, Falwell included copies of the ad parody in his fundraising literature and commercials. *Hustler Magazine* sued Falwell and his religious organizations for copyright infringement and the defendants claimed fair use.\(^{342}\) The court found that despite the defendants’ commercial use of the parody, it was “consistent with congressional intent to find that Falwell was entitled to provide his followers with copies of the parody in order effectively to give his views of the derogatory statements it contained.”\(^{343}\) The fourth factor also favored the defendants, with the court noting, “In fact Hustler republished the same parody in its March, 1984 issue, indicating that if anything plaintiff thought the market for the parody had increased.”\(^{344}\)

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The attempt to categorize the cases discussed in this section reveals some common trends, but perhaps does more to reveal inconsistencies in how courts approach the fair use doctrine. From these commonalities and differences emerges a framework for evaluating fair use in cases in which the unlicensed use possibly benefits the copyright holder’s market.

V. A FAIR USE FRAMEWORK AND THE FOURTH FACTOR

The gaps in U.S. copyright law are increasing in step with changes in technology

\(^{341}\) Hustler Mag., Inc. v. Moral Majority, Inc., 606 F. Supp. 1526, 1539-1540 (C.D. Cal. 1985)
\(^{342}\) Id. at 1529.
\(^{343}\) Id. at 1535.
\(^{344}\) Id. at 1540.
(e.g., innovative media, enhanced means of duplicating copyrighted works, and new avenues of expression), which are giving rise to unpredictable conflicts between private property rights and the public interest.\textsuperscript{345} Despite the most recent call by the U.S. Supreme Court in \textit{Campbell} to balance all four fair use factors,\textsuperscript{346} courts continue to emphasize the fourth factor most heavily—the market effects (and, most often, the market harm) from the unlicensed use of copyrighted works.\textsuperscript{347} In cases where an unlicensed use benefits or has no effect on the copyright holder’s potential market, striking a balance between the private economic rights of creators and the public’s access to creative works is easiest. In such cases, courts should protect transformative or public uses as fair, and not necessarily protect uses that are both non-transformative and private. However, in the latter scenario, the copyright holder, if successful in litigation, should be limited to injunctive relief, or where injunctive relief would prove ineffective, statutory or other monetary damages should be offset by the benefit to the copyright holder’s market.

This framework demands that courts account for a copyright holder’s lost licensing royalties in its analysis of market effect only if a primary or derivative market

\textsuperscript{345} \textit{See}, e.g., Kul, supra note 126, at 264 (“Digital technology therefore has ‘the potential to demolish a careful balancing of public good and private interest that has emerged from the evolution of U.S. intellectual property law over the past 200 years.’”) (quoting COMMITTEE ON INTELLECTUAL PROPERTY RIGHTS AND THE EMERGING INFORMATION INFRASTRUCTURE, NATIONAL RESEARCH COUNCIL, THE DIGITAL DILEMMA: INTELLECTUAL PROPERTY IN THE INFORMATION AGE 2 (National Academy 2000)).

\textsuperscript{346} \textit{Campbell} v. Acuff-Rose Music, Inc., 510 U.S. 569, 578 (1994) (“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.”).

\textsuperscript{347} \textit{See}, e.g., Bond v. Blum, 317 F.3d 385, 396 (4th Cir. 2003) (“This factor is ‘undoubtedly the single most important element of fair use.’”) (quoting Harper & Row, Publ’rs, Inc. v. Nation Enters., 471 U.S. 539, 566 (1985)); Sony Computer Ent. v. Bleem, 214 F.3d 1022, 1029 (9th Cir. 2000) (“In addressing this fourth and most important factor, the Supreme Court considered…”); Sundeman v. Seajay Socy., 142 F.3d 194, 206-07 (4th Cir. 1998) (“This fourth factor ‘is undoubtedly the single most important element of fair use.’”) (quoting \textit{Harper & Row}, 471 U.S. at 566); Princeton Univ. Press v. Michigan Document Serv., Inc., 99 F.3d 1381, 1386 (6th Cir. 1996) (“In determining whether a use is ‘fair,’ the Supreme Court has said that the most important factor is the fourth … We take it that this factor … is at least primus inter pares, figuratively speaking, and we shall turn to it first.”); Lowry’s Reports, Inc. v. Legg Mason, Inc., 2003 U.S. Dist. LEXIS 11826, *24 (D. Md. 2003) (“This factor is ‘undoubtedly the single most important element of fair use.’”) (quoting \textit{Harper & Row}, 471 U.S. at 566).
for licensing the original work exists, and only if the copyright holder is willing and able to exploit that market. Where such markets do not exist, licensing royalties are not part of the copyright holder’s expectation interest\textsuperscript{348} in the copyright, so courts should not factor in unrealized royalties into their analysis of the copyright holder’s market.\textsuperscript{349} To do so does nothing further to protect the incentives of artists and authors to create new works.

A. Removing the Emphasis on Licensing Rationales

Many courts reject fair use claims to protect the right of copyright holders to choose between the benefits of an expanded market and the opportunity to realize royalties by licensing their original works to other users.\textsuperscript{350} This approach has two

\textsuperscript{348} An “expectation interest” is a traditional contract law concept used in calculating damages for breach of contract. See generally \textsc{Restatement (Second) of Contracts} § 344(a) (1982); E. Allen Farnsworth, \textit{Your Loss or My Gain? The Dilemma of the Disgorgement Principle in Breach of Contract}, 94 \textsc{Yale L.J.} 1339, 1341 (1985) (“[It is a principle of the law of contracts that damages for breach should be based on the injured party’s lost expectation.”) (citing U.C.C. § 1-106(1) (1978)); Robert Cooter & Melvin Eisenberg, \textit{Damages for Breach of Contract}, 73 \textsc{Calif. L. Rev.} 1432, 1434 (1985) (“The conventional analysis of contracts holds that the purpose of damages is to compensate the victim of breach for his injury. This purpose, in turn, is normally to be accomplished by awarding expectation damages—that is, the amount required to put the injured party where he would have been if the contract had been performed. The goal, compensation, and the means, expectation damages, are so ingrained in contract law as to seem self-evident.”); Steven J. Burton & Eric G. Anderson, \textit{The World of a Contract}, 75 \textsc{Iowa L. Rev.} 861, 865 (1990) (“The expectation interest defines the harm that is the distinctive (though not the sole) concern of contract law. Compensation for harm to the expectation interest is well recognized as the prime goal of the main judicial remedies for breach of contract.”). The Restatement (Second) of Contracts defines the “expectation interest” as the promisee’s “interest in having the benefit of his bargain by being put in as good a position as he would have been had the contract been performed.” \textsc{Restatement (Second) of Contracts} § 344(a) (1982). In determining the position of the plaintiff but for the breach (or in the case of copyright, the infringement), the law has required that the expectation interest be foreseeable and shown with sufficient certainty. See id. at cmt. b, §§ 351, 352. Similarly, the foreseeability and certainty requirement for measuring expectancy interests would most likely bar recovery for lost licensing revenues in a previously nonexistent licensing market.

\textsuperscript{349} A copyright holder’s expectation in a copyright is the economic value of the copyright to the creator at the time the original work is created. Current copyright law, in different ways, enables copyright holders to receive more than their expectation interest upon infringement. For example, the law entitles copyright holders to an infringer’s profits (disgorgement) from an unlicensed use, see \textit{supra} note 42, even though the copyright holder did not expect infringement at the time of creation. Likewise, licensing revenues that the copyright holder never intended to realize are outside of the copyright holder’s expectation. As discussed in Part V-C and Part VI, \textit{infra}, perhaps using an expectancy measure for calculating damages in copyright infringement cases is most consistent with the predominant utilitarian theory of intellectual property and best balances private economic rights and the public interest.

\textsuperscript{350} \textit{See, e.g.}, Part IV-A and Part IV-B, \textit{supra}.
potential pitfalls. First, these courts often assume copyright holders and unlicensed users (and copyright holders and other users) can enter into licensing agreements with minimal transaction costs. If transaction costs are too high, or, as is often the case, the copyright holder is simply unwilling to license an original work or no market exists for such a license, then courts should not protect the copyright holder’s right to license because the copyright holder has no expectation of realizing licensing revenues. Therefore, any judicial fair use inquiry should start with a determination as to whether a market for licensing the original work exists.

Second, through their focus on potential licensing revenues, courts are doing more than simply preserving the rights of copyright holders to control the dissemination of their works. Even where a market for licensing original works existed, copyright holders reap the market benefit of an unlicensed use and—under a statutory or compensatory measure of damages—receive damages for that use. To more accurately preserve the rights of copyright holders to license their works and to not give artists and authors an over-incentive to create, courts should offset the value of any market benefit to the copyright holder against whatever monetary damages would otherwise have been awarded.

Several cases reflect these pitfalls inherent in trying to protect the rights of copyright holders to license their works to unlicensed users. For example, in *DC Comics, Inc. v. Reel Fantasy, Inc.*, the appellate court did not find the comic book store’s appropriation of the plaintiff’s copyrights fair as a matter of law because the defendant precluded DC Comics from licensing the *Batman* name and symbols to the comic book store. But the court failed to define the factual issues for the lower court to consider on
remand—most notably, whether the copyright holder would have licensed its copyrights to the comic book store absent litigation and whether it could have done so without high transaction costs. If a license were improbable, the court should have directed the trial court not to factor lost licensing royalties into its market analysis upon remand.

In Iowa State U. Research Found., Inc. v. American Broadcast Co., Inc., the court looked more closely at the plaintiff’s ability and willingness to license its videotape of an Olympic wrestler to the defendant and made an apparent assumption (which was never proven) that the plaintiff could have and would have licensed the copyrighted videotape to the defendant absent infringement and litigation. If the court was correct in its assumption, then it decided the fair use inquiry correctly because the plaintiff’s licensing royalties would most likely have exceeded any other market benefit to the copyright holder from the unlicensed use (especially because the defendant had a monopoly on the Olympic Games coverage). However, the monetary value of any proven market benefit to the copyright holder should have been subtracted from the plaintiff’s damages, an omission that defeated the court’s purpose in preserving the copyright holder’s choice between attempting to exploit the market for licensing its videotape on the one hand, and withholding consent for any such license and reaping the benefits of an enhanced market on the other.

In Storm Impact, Inc. v. Software of Month Club, the court found defendant’s

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351 696 F.2d 24, 28 (2d Cir. 1982).
352 621 F.2d 57, 62 (2d Cir. 1980).
353 See id. If Iowa State had granted ABC a non-exclusive license to use the videotape, then Iowa State could theoretically have received licensing royalties from ABC and reaped the benefits of an enhanced market. However, such a result was implausible as ABC did not even seek Iowa State’s permission to use the videotape. Additionally, if the parties had negotiated a licensing agreement, the parties would have negotiated a royalty rate that accounted for the possibility of market benefit (as an economic benefit to the transaction), something that courts seem unwilling to account for in awarding damages.
shareware versions of the plaintiff’s copyrighted software unfair because to find otherwise, would have required the court to impose a compulsory license on the copyright holder. The court in this case found the question irrelevant of whether a market existed for a license between the plaintiff and the defendant. Regardless of the net effect of the unlicensed use on the plaintiff’s potential market, the court paradoxically suggested that copyright holders should have their licensing rights protected even when no such license is possible.\textsuperscript{355} Such protection seems unrelated to protecting artists’ and authors’ incentives to create because a copyright holder does not expect to reap market benefits and realize licensing royalties when no market for a license exists.

Decisions protecting copyright holders’ rights to license works to users other than alleged infringers raise the same issue as to whether a plausible market for licensing exists. In \textit{Rubin v. Brooks/Cole Publg. Co.},\textsuperscript{356} the court rejected the defendant’s fair use claim because the defendant-publisher’s unlicensed use might have affected the plaintiff’s ability to license the “Love Scale” to other textbook publishers in the future. In reaching that conclusion, the court’s fourth factor analysis was skewed. While noting the absence of evidence that the defendant harmed the plaintiff’s potential market and speculating that the unlicensed use might have increased demand for the copyrighted “Love Scale” in question, the court nevertheless ruled in favor of the plaintiff.\textsuperscript{357} The decision overlooked two critical facts that made the existence of such a market for licensing implausible: a) other textbook authors had used the same copyrighted work

\textsuperscript{355} \textit{See id.} at 790-91. \textit{But see} American Geophysical Union v. Texaco, Inc., 60 F.3d 913, 929-30 (2d Cir. 1994) (“However, not every effect on potential licensing revenues enters the analysis under the fourth factor. Specifically, courts have recognized limits on the concept of ‘potential licensing revenues’ by considering only traditional, reasonable, or likely to be developed markets when examining and assessing a secondary use’s ‘effect upon the potential market for or value of the copyrighted work.’”).


\textsuperscript{357} \textit{Id.} at 922.
without paying royalties, including many who had received prior permission to do so; and 
b) the plaintiff offered no proof that a market for licensing the “Love Scale” to other 
users existed. The court was able to avoid drawing any conclusions about the net 
effect of the unlicensed use on the copyright holder’s potential market by making an 
unprincipled decision that reflected the compromise in its analysis—the court entered an 
injunction to enjoin future use by the defendant but did not award the plaintiff damages 
for the defendant’s past use of the “Love Scale.”

In Castle Rock Ent., Inc. v. Carol Publg. Group, Inc., a decision resembling the 
dicta in Storm Impact, Inc., the court found the dissemination of the defendant’s Seinfeld 
trivia book unfair, holding that Castle Rock (the producer of the Seinfeld television 
program) had exclusive rights to derivative works regardless of whether it intended to 
enter the markets for those works. In this case, the plaintiff could not demonstrate any 
harm to its potential derivative markets because it had no desire to exploit those 
markets. Even though the court recognized that the defendant’s use was 
transformative, it ruled that the degree of transformation was not enough to support a fair use finding. However, in light of the fact that the only possible effect of the use on the plaintiff’s market was beneficial, even a slight degree of transformation should have been 
enough to support a finding of fair use.

Likewise, in Twin Peaks Prods., Inc. v. Publications Intl., Ltd., the copyright 
holder had once showed an interest in exploiting derivative markets, yet admitted that its

358 See id. (“In spite of these shortcomings, however, the Court is inclined to infer that at least some market 
exists for licensing the Love Scale to other textbook authors.”). 
359 Id. 
360 50 F.3d 132, 145-46 (2d Cir. 1998). 
361 Id. 
362 Id. at 143. 
363 996 F.2d 1366 (2nd Cir. 1993).
interest in those markets decreased as the popularity of *Twin Peaks* diminished.\footnote{364}{Id. at 1377.} The court gave greater weight to the plaintiff’s passive interests in market development than to the economic benefit from the defendant’s unlicensed use, and did not consider whether a market for licensing the original work for derivative uses existed.\footnote{365}{Id.} Whether correct, the court, as in other cases, made no suggestion that the value of the benefit to the plaintiff’s market should have been subtracted from any damages that otherwise would have been awarded to the plaintiff.\footnote{366}{See id. See also Paramount Pictures Corp. v. Carol Publg. Group, Inc., 11 F. Supp. 329, 336 (S.D.N.Y. 1998).} The court ignored the economic realities of the copyright holder’s market as is characteristic of courts in fair use cases.

**B. Two-Part Framework**

Eliminating reliance on the copyright holder’s lost licensing royalties when no market for such licensing exists is the necessary first step to assessing any net market benefit from an unlicensed use. Only when a market for such licensing exists, and the copyright holder is able and willing to exploit that market, should lost licensing royalties be considered in measuring the effects of the unlicensed use on the copyright holder’s market.

With the licensing obstacle aside, courts should apply a relatively simple rubric in fair use cases where there exists a possible benefit (or, at minimum, there is no market harm) to the copyright holder’s market from the unlicensed use. In such cases, transformative and other public uses would be fair, while non-transformative and non-private uses would be presumptively unfair, but damages in the latter scenario would be
limited when the copyright holder is successful in litigation.\footnote{367}

While this approach rejects the importance that some courts place on the commercial/non-commercial dichotomy,\footnote{368} that dichotomy is not very effective in helping to draw the line between fair and unfair uses.\footnote{369} As courts have defined the inquiry, the question is not whether the unlicensed use is part of a commercial work, but whether the unlicensed user has exploited the original work for commercial gain.\footnote{370} Such inquiry is often a fiction because almost any unlicensed use in a commercial work is, in part, for commercial gain even if there are other purposes for the use as well.\footnote{371} The murkiness of the test gives courts great latitude in categorizing uses as either commercial or non-commercial in fair use cases.

The grant of exclusive rights to creators and the statutory limitations on those rights were both enacted for the benefit of the public.\footnote{372} The dichotomy between commercial and non-commercial uses avoids the question of whether an unlicensed use is consistent with the public purpose of U.S. copyright law. Transformative uses, even if undertaken for commercial purposes, add new works to the public domain.\footnote{373}

\footnotetext{367}{One of the primary objections to this framework is the speculative nature of measuring market benefit or finding the absence of any market harm. However, evaluating market harm under the fourth fair use factor and calculating copyright damages are equally as subjective and speculative. The fourth factor is a difficult criterion for measuring justice, yet it is a crucial guideline for determining fair use in a justice system based on economic rather than moral rights.}

\footnotetext{368}{See supra notes 84-87, 121, 123 and accompanying text.}

\footnotetext{369}{See supra note 87 and accompanying text.}

\footnotetext{370}{See supra note 84 and accompanying text.}

\footnotetext{371}{See, e.g., Haberman v. Hustler Mag., Inc., 626 F. Supp. 201, 212-214 (D. Mass. 1986); see also supra notes 318-321 and accompanying text.}

\footnotetext{372}{See, e.g., U.S. CONST., art. I, § 8, cl. 8 (“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”); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (“the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward.”). Determining fair use “involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society’s competing interest in the free flow of ideas, information, and commerce on the other hand.” Id.}

\footnotetext{373}{An obvious example would be a critical book review printed in a newspaper or magazine.}
Conversely, some non-commercial uses, such as the videotaping of television programs for personal use, do not fulfill any public purpose. Therefore, with a commercial/non-commercial dichotomy, even after an unlicensed use is categorized, the critical inquiry of whether the use is in furtherance of a public purpose remains.

Therefore, a more useful dichotomy is between public and private uses, a distinction helpful in analyzing whether unlicensed uses are consistent with the public purpose of copyright law. Public uses include transformative uses (which further the objective of U.S. copyright law to add new works to the public domain), but also include non-transformative uses satisfying other governmental objectives such as education and public adjudication. The use of copyrighted games in an educational children’s gaming tournament (Allen v. Academic Games) and the introduction of a copyrighted manuscript into evidence at a custody hearing (Bond v. Blum) are both public uses.

Private uses do not fulfill a governmental purpose. Private uses may include copying for the purposes of advertising, such as calling one’s comic book store “The Batcave,” (DC Comics v. Reel Fantasy) or a religious organization’s use of an advertisement parody in fundraising literature (Hustler Magazine. v. Moral Majority),

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374 See, e.g., Melville B. Nimmer, Copyright Liability for Audio Home Recording: Dispelling the Betamax Myth, 68 VA. L. REV. 1505, 1521-22 (1982) (“The Betamax court of appeals properly found that fair use is not applicable where the user copies a protected work merely for his own ‘convenience’ or ‘entertainment.’ Yet it is an ‘entertainment’ use, and only that, which is involved in most audio home recording. It cannot be said that the purpose and character of home recording meets the first requirement of fair use.”).

375 Private uses include those similar to what Justice Blackmun described as “purely personal consumption” in Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 495 (1984) (Blackmun, J., dissenting). Justice Blackmun explained that “[i]t is clear, however, that personal use of programs that have been copied without permission is not what 107(1) protects. The intent of the section is to encourage users to engage in activities the primary benefit of which accrues to others. Time-shifting involves no such humanitarian impulse. … Purely consumptive uses are certainly not what the fair use doctrine was designed to protect, and the awkwardness of applying the statutory language to time-shifting only makes clearer that fair use was designed to protect only uses that are productive.” Id. at 496.
uses that, on their face, do not further any public purpose.\textsuperscript{376} Yet another possible private use is downloading (essentially copying a copy) an MP3 music file for one’s own personal music collection. This public/private use dichotomy is instructive to the two-part framework discussed below.

1. \textit{Market enhancement + transformative or public use = fair use}

Judicial guidelines require a clear understanding of the purpose of copyright law. One motivation for granting copyright protection is to preserve an artist’s or author’s incentive to create; the counterbalance is the desire to augment the public domain. When there is a possible net benefit (or, at minimum, an absence of any harm) to the copyright holder’s market from an unlicensed use, a finding of fair use protects the economic expectancies of copyright holders without undermining the incentive to create. Likewise, where the unlicensed use is transformative or public, the user has added to the quality and quantity of original works available to the public or fulfilled some other public purpose. In a legal system adverse to moral rights, a finding of fair use under these circumstances strikes the balance that many theorists and judges seek between private property rights and the public interest. The competing goals—the copyright holder’s expectations of protection for resource investment and financial reward as well as the public’s interest in having access to an ever-increasing number of creative works—are both fulfilled when transformative or public uses that do not harm the copyright holder’s market are found to be fair.\textsuperscript{377}

\textsuperscript{376} While advertising and fundraising can indirectly make an original work accessible to more people, the connection is weak because in most cases, the public would already have had access to the original work before the advertising or fundraising occurred.

\textsuperscript{377} \textit{See, e.g.,} Bond v. Blum, 317 F.3d 385 (4th Cir. 2003); Nunez v. Caribbean Int’l News Corp., 235 F.3d 18 (1st Cir. 2000); Allen v. Academic Games League of Am., Inc, 89 F.3d 614 (9th Cir. 1996); Hofheinz v. AMC Prod., Inc. 147 F. Supp. 2d 127 (E.D.N.Y. 2001).
2. *Market Enhancement + non-transformative and private use = if no fair use, then limitations on damages*

In cases where there is a net benefit (or an absence of any harm) to the copyright holder’s market from a non-transformative and private use, a finding of fair use is consistent with protecting the copyright holder’s expectancy and the incentive to create. But in these cases, there is no strong countervailing public interest furthered by the unlicensed use. Consequently, a finding of fair use is not necessary to balance the economic rights of the copyright holder and the public interest, and most of what is at stake are competing private interests. Consequently, courts should presume that such unlicensed uses are unfair, and in most, if not all, cases, find that the private motives of the unlicensed user do not provide a sufficient justification for fair use.

However, at the same time, the law should not provide copyright holders economic rewards (in the form of damages) beyond their expectation interests. Many courts have allowed copyright holders to collect damages and reap the benefits of an enhanced market—a double-reward process that exceeds the incentives that copyright law was designed to protect. In these cases, because the copyright holder is benefiting economically or, at minimum, suffering no harm, there must be some moral or social objection to the unlicensed use. Without a moral or social objection, there would be no litigation, as is the casewith the comic book market in Japan. Therefore, the preferred remedy in cases of non-economic harm to copyright holders should be an injunction but only if injunctory relief prevents the unlicensed use. In cases where injunctions would be futile (e.g., to prevent the publication of pre-release excerpts of J. K. Rowling’s

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378 See, e.g., DC Comics, Inc. v. Reel Fantasy, Inc., 696 F.2d 24, 28 (2d Cir. 1982).
379 See generally Part IV-A, supra.
380 A court would also have to award the copyright holder attorneys’ fees and costs to protect fully the copyright holder’s expectancy in the copyright.
latest book), the value of any benefit to the copyright holder’s market should offset statutory or other compensatory damage awards.\textsuperscript{381} The copyright holder should not reap damages from infringement as well as the benefits of infringement at the same time.

In certain other situations, U.S. copyright law allows for multiple recoveries—for instance, the copyright holder who recovers lost profits plus the unlicensed user’s profits (disgorgement), or the copyright holder who receives treble damages in certain cases of willful infringement.\textsuperscript{382} “Double recovery” in copyright cases has come under considerable scrutiny.\textsuperscript{383} Most critics have focused on the potential for the copyright holder’s monetary recovery to exceed the actual damages from the unlicensed use, especially in cases where courts seek to disgorge the profits of the unlicensed user attributable to the infringement.\textsuperscript{384} A model of awarding economic damages equal to the copyright holder’s expectation interest, in cases of market benefit and in infringement cases more generally, precludes the need for courts to make subjective, fact-specific inquiries into an unlicensed user’s motives, and prevents an unnecessary chilling effect.

\textsuperscript{381} In cases where there is no economic harm to the copyright holder’s market from the unlicensed use, and the copyright holder prevails, the copyright holder’s economic expectancy can be realized by an award of attorneys’ fees and costs alone. But copyright holders also have an expectancy, although non-economic, in protection from certain unlicensed uses, and awards of statutory damages (to the extent that those damages exceed the value of any market benefit) might be necessary to deter private, unlicensed uses of original works.

\textsuperscript{382} See supra note 42 (discussing methods of calculating damages for copyright infringement under the Copyright Act); see also 17 U.S.C. § 504(d) (2003).

\textsuperscript{383} See, e.g., Andrew W. Coleman, Copyright Damages and the Value of the Infringing Use: Restitutionary Recovery in Copyright Infringement Actions, 21 AIPLA Q.J. 91, 92-93 (1993) (“[A] copyright owner is entitled to recover both actual damages and any profits of the infringer. … ‘Damages are awarded to compensate the copyright owner for losses from the infringement, and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act.’”) (quoting H.R. Rep. No. 1476, 94th Cong., 2d Sess. 66 (1976); Dane S. Ciolino, Reconsidering Restitution in Copyright, 48 E MORY L.J. 1, 32-33 (1999) (“[T]he Copyright Act potentially permits owners to recover amounts far in excess of their actual losses. Take for example a songwriter whose copyright in a previously-distributed musical work has been infringed, albeit innocently, by a recording artist. Although the songwriter may have suffered only the loss of a statutory royalty, he nonetheless may recover all profits of the recording artist attributable to the musical work—without regard to the fact that such profits may far exceed the amount that the songwriter would have received had the infringer obtained a license ex ante.”).

\textsuperscript{384} Id.
on those who seek to transform or use original works legally but do not do so out of fear of the restitutionary or punitive nature of copyright damages. As copyright law is a difficult balancing act, invoking restitution or punishment adds another equitable variable into fair use inquiries and leaves little room for error.

C. Aligning the Framework with Intellectual Property Theories

The framework just described is arguably most consistent with utilitarianism, the predominant theory of intellectual property. The current U.S. copyright system rests on primarily utilitarian principles, and the proposed framework fulfills utilitarian objectives in protecting the economic incentives of creators, recognizing the economic realities of licensing, encouraging the use of copyrighted works that are transformative or otherwise public in nature, and reducing the undesired chilling effect of copyright law on potential users. Increasing the utilization and production of copyrighted works would maximize the net social welfare; the greatest number of people would benefit by expanding the number of permissible uses while still protecting the copyright holder’s incentive to create. Creators need to maintain a clear understanding of what to expect from the legal system (protection of their incentives and investments) as well as what they must give up to users (permission to transform copyrighted works or otherwise use them for the public good), and the framework provides such an understanding.

The tenets of labor theory are facially inconsistent with the concept of balancing in intellectual property cases. Still, in cases where public or transformative uses benefit (or do no harm) to the copyright holder’s market, findings of fair use would enable copyright holders to recoup investment costs, while, at least in the case of

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385 See generally Part III-A, supra.
386 See generally Part III-B, supra.
transformative uses, add new creative works to the public domain.

While personality theory emphasizes personal expression and moral rights rather than economic rights, the proposed framework, in part, is reconcilable with personality theory because it discourages private unlicensed uses that a copyright holder finds morally or socially offensive. However, the challenge in reconciling personality theory with the proposed framework lies in how to resolve the conflict between a creator’s moral rights and the interest of the public in accessing a broader domain of creative works.

Social planning theory, with its view toward developing a more just society, shares the emphasis of the proposed framework on protecting and encouraging transformative and other public uses in cases where the unlicensed use poses no economic harm to the copyright holder. Some of the proposals of social planning theorists, such as to shorten the length of the copyright term, to curtail protection of derivative uses, and to impose a compulsory licensing scheme on copyright holders might offer even greater protection of the public interest. However, such theorists do not offer any more direction than current utilitarian theorists as to where to draw the line between fair and unfair uses.

Regardless of which intellectual property theory or theories courts invoke in specific cases, they universally try to balance the private rights of the copyright holder and the public interest in their fair use jurisprudence. The proposed framework directly addresses this central principle of copyright law in cases where an unlicensed use possibly benefits (and, at minimum, does not harm) a copyright holder’s market.

387 See generally Part III-C, supra.
388 As the proposed framework assumes the acceptance of the current economic-based copyright system, such reconciliation is beyond the scope of this article.
389 See generally Part III-D, supra.
VI. CONCLUSION

The difficulty in applying the fair use doctrine, especially the fourth factor, is largely attributable to a lack of consensus in defining the fundamental goals and principles of intellectual property law. How courts should factor market benefit (or an absence of market harm) into the fair use equation crystallizes the tension in copyright law between private property rights and the public domain.

This tension spills over into other areas of intellectual property law as well. For example, how strictly or liberally a court should interpret the doctrine of equivalents is a question about where to draw the line between the private economic rights of inventors and public access to technology. Similarly, the multi-factor “likelihood of confusion” test for trademark infringement, similar to the four-factor fair use inquiry, is a difficult, fact-specific inquiry that is much less about confusion and more about the extent to which the U.S. trademark laws protect private economic interests in names and marks versus making those same names and marks available to the public.

A consequence of this tension in intellectual property law has been a trend over the last few decades toward expanding the protections afforded to the holders of copyrights, patents, and trademarks. However, a grant of a copyright or other

390 See, e.g., Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 730-31 (2002) (upholding the doctrine of equivalents) (“The patent laws ‘promote the Progress of Science and useful Arts’ by rewarding innovation with a temporary monopoly. The monopoly is a property right; and like any property right, its boundaries should be clear. This clarity is essential to promote progress, because it enables efficient investment in innovation. A patent holder should know what he owns, and the public should know what he does not.”).
392 Id. at 10-12. Part of this can be attributed to the fact that intellectual property rights have taken on more of the characteristics of property rights. Professor Fisher explains, “Gradually over the course of American history, this discourse [focusing on limited monopolies] was supplanted by one centered on the notion that rights to control the use and dissemination of information are forms of ‘property.’” Id. at 20. Traditionally property rights are more absolute than contract rights and come with a broader set of
intellectual property is, in fact, an exchange of rights—the private inventor or creator or business receives certain rights in exchange for giving the public certain access to that creativity and inventorship. This perception is more consistent with contract law than property law—i.e. intellectual property holders have an expectancy of certain economic protections in exchange for allowing public use of their creations under certain circumstances. Courts already use many common law contract terms such as “good faith” and “fair dealing” in trying to strike a balance between private economic rights and the public interest in intellectual property law.393

Such a paradigmatic shift in thinking about intellectual property rights is probably a long time away (and beyond the scope of this article). But even if the smaller-scale framework advanced in Part V is applied to J. K. Rowling’s suit against the New York Daily News,394 we should conclude that the New York Daily News’ publication of excerpts from Harry Potter and the Order of the Phoenix does not constitute fair use because the use was private and non-transformative. However, the framework also acknowledges a neutral or positive market effect to the author’s market. A fair resolution, therefore, would award the copyright holder statutory damages for infringement but offset those damages against the value of any benefit to the copyright holder’s market. But Harry Potter himself cannot read the divination tea leaves and

remedies. See generally id. at 20-23. “There was once a theory that the law of trademarks and tradenames was an attempt to protect the consumer against the ‘passing off’ of inferior goods under misleading labels. Increasingly the courts have departed from any such theory and have come to view this branch of law as a protection of property rights in diverse economically valuable sale devices. In practice, injunctive relief is being extended today to realms where no actual danger of confusion to the consumer is present.” Id. at 22 (quoting Felix Cohen, Transcendental Nonsense and the Functional Approach, 35 COLUM. L. REV. 809, 814-17 (1935)).

predict the next stages of the fair use debate. It is clear thought that we must move from incantations of *Stupefy*—meant to halt forward progress—in favor of *Alohomora*—a charm that opens closed doors.

392 *See supra* note 1.