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Old Lyrics, Knock-Off Videos, and Copycat Comic Books: The Fourth Fair Use Factor in U.S. Copyright Law

Gregory M. Duhl
Mitchell Hamline School of Law, gregory.duhl@mitchellhamline.edu

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Old Lyrics, Knock-Off Videos, and Copycat Comic Books: The Fourth Fair Use Factor in U.S. Copyright Law

Abstract
This article examines the fourth fair use factor in copyright law in cases in which the unlicensed use benefits, or has no effect on, the copyright holder's market. It proposes a two-part framework for these cases. If the unlicensed use is transformative or public, and the use does not harm the copyright holder's market, the copyright holder's economic expectancy is protected, and the user should not have to pay damages, analogous to the law of eminent domain. In cases in which the unlicensed use is private, the court should protect the rights of the copyright holder with damages, even if the those rights are personality or moral rights, rather than economic rights, because there is no public interest in protecting the unlicensed use. NOTE: Duhl would like us to try to put the article in these ejournals, in add'n to the WMCL journal, and I told him we would try to do this: Contracts & Commercial Law eJournal, Intellectual Property Law eJournal (copyright), Property, Land Use & Real Estate eJournal, Science, Technology & Innovation Research Papers.

Keywords

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Gregory M. Duhl†

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† Honorable Abraham L. Freedman Fellow and Lecturer in Law, James E. Beasley School of Law, Temple University; B.A. 1991, Yale College; J.D. 1995, Harvard Law School. I thank Richard Greenstein, Robin Nilon, and Eugene Quinn for their helpful comments on earlier drafts of this Article. I also acknowledge the exceptional research assistance of Audrey Bowen, Virginia King, Mark Laderman, and Damian Taranto. Last, I thank my two mentors in teaching, Jan Levine and William Woodward, for teaching me much about scholarship and writing.

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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.

The newspaper will contend that its publication of the excerpts constituted “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 § 107 of the U.S. Copyright Act of 1976 requires a balancing of four factors: “the purpose and character of the use, . . . the nature of the copyrighted work, the amount and substantiality of the portion used, 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 potential net benefit to the copyright holder’s market, such as in the Harry Potter case. The inherent difficulty


3. 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 market for licensing exists and, if so, the extent of such a market, is a critical variable in analyzing the copyright holder’s potential market, a variable which I will isolate and examine independently from the question of market benefit in Part V.

in defining markets and in accurately assessing benefit and harm, 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 from an unlicensed use.\(^5\)

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.

I. THREE EXAMPLES

A. Japanese Comic Books

*Manga*—an expressive medium similar to what Americans call comic books or graphic novels\(^6\)—account for nearly one-third of the revenue earned by the entire Japanese publishing industry.\(^7\) The mammoth interest in *manga* has spawned a subsidiary industry in *dōjinshi*, which consist of


5. See supra note 4.


well-known, copyrighted *manga* characters written about and drawn for the most part by unauthorized authors and artists.\(^8\) *Dojinshi*—which are sold on the Internet, at conventions that attract tens of thousands of enthusiastic fans,\(^9\) and at a small number of major bookstores\(^10\)—have not been a consistent target of copyright litigation in Japan.\(^11\) Instead, *manga* authors and publishers have tolerated (and in some cases encouraged) the proliferation of *dojinshi*, with several *manga* publishers regularly advertising their products at *dojinshi* conventions.\(^12\) The non-creative sections of the publishing industry (printers and binders) that produce *dojinshi*\(^13\) have definitely prospered from *dojinshi* sales.\(^14\) But the

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   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.


   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*.


11. *Id.* at 184.

12. *Id.*

13. 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.”).

14. Kennard, *supra* note 13, at 11 (“*Dojinshi* support a significant financial sector, from art supplies to printing companies to delivery services. There are about 100 small
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.

### B. 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,” music from previously recorded works is incorporated into new songs, often with the voices of the original singers. The practice expanded in the 1980s with the invention and increasing affordability of Musical 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 made a parody of Roy Orbison’s well-known hit *Oh Pretty Woman*, using lyrics and music from the original recording. In recognizing the song as a parody, the Court acknowledged that 2 Live Crew had

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15. See Mehr, supra note 6, at 184, 191.


17. See Wilson, supra note 16, at 179 (citing DONALD S. PASSMAN, ALL YOU NEED TO KNOW ABOUT THE MUSIC BUSINESS 306 (2000)).


19. See, e.g., Passmore, supra note 16, 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)).


21. Id. at 571.
transformed the original source in a creative fashion\textsuperscript{22} and therefore that the appropriation possibly qualified as an instance of fair use.\textsuperscript{23} However, while the Court criticized the appellate court's finding that the newer song's commercial purpose made the use "presumptively unfair,"\textsuperscript{24} 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.\textsuperscript{25} 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 fair."\textsuperscript{26} Along with other courts, the U.S. Supreme Court has failed to adequately consider the potential benefits of sampling on the market for the copyrighted work.

C. 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

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{22} The concept of transformative use is discussed in Part II.B and Part IV.B.
\item \textsuperscript{23} \textit{Campbell}, 510 U.S. at 579-83. Furthermore, the Court restated an intolerance for unauthorized sampling that simply duplicates the original work and does not transform it. \textit{Id.} at 591-92. The Court stated:

\begin{quote}
When 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.
\end{quote}
\item \textsuperscript{24} \textit{Campbell}, 510 U.S. at 590-94.
\item \textsuperscript{25} \textit{Id.} at 593-94.
\item \textsuperscript{26} \textit{Id.} at 591 n.21 (citing Leval, \textit{Fair Use Standard}, supra note 23, at 1124 n.84).
\end{itemize}
\end{footnotesize}
it. Recognizing that benefit in *Sony Corp. of America 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. Time-shifting serves as an example of how electronic or digital copying enhances the market for copyrighted works.

* * *

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 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

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29. Mehra, *supra* note 6, 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.

30. See generally *supra* note 4.


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 of unlicensed users decreases or eliminates incentives for innovation. Thus, they believe that application of fair use is only appropriate where there are high transaction costs or other barriers to licensing copyrighted works. These theorists think that fair use should be regarded as a defense to copyright infringement and not as a limitation on a copyright holder’s exclusive rights, primarily because they fail to properly recognize extrinsic social and other non-economic benefits from the unlicensed use of copyrighted works.

Critics of this analysis rightfully note that an incentive-based model does not provide a precise line between fair and unfair use, one that maximizes the incentive to create without giving artists extraneous benefits. Infringement claims asserted in cases where the unlicensed use potentially expands the copyright holder’s 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.


34. See, e.g., Breyer, supra note 33, at 318; William M. Landes, Copyright, Borrowed Images, and Appropriation Art: An Economic Approach, 9 GEO. MASON L. REV. 1, 5 (2000) (“[T]he incentive to create new works will be significantly undermined without protection against unauthorized copying.”); Landes & Posner, supra note 33, at 357-58.

35. See, e.g., Breyer, supra note 33, at 330; Landes, supra note 34, at 5; Landes & Posner, supra note 33, at 357.

36. See id.


38. See id.


But to preserve that choice, the copyright holder who litigates successfully need not receive damages\textsuperscript{41} and the benefits of an enhanced market.

Perhaps a better explanation for market failure 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. 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 is transformative.\textsuperscript{42} 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.

Consequently, such critics believe that the fair use doctrine is necessary to protect transformative uses. Additionally, in light of the purpose of fair use to protect the public's interest in using copyrighted works against the rights of copyright holders, uses that are not

\textsuperscript{41} See Dane S. Ciolino, \textit{Reconsidering Restitution in Copyright}, 48 EMORY L.J. 1, 9 (1999). Dane Ciolino stated:

\begin{quote}
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.
\end{quote}

\textit{Id.}

Damages for copyright infringement are provided for in \textsection 504 of the Copyright Act. 17 U.S.C. \textsection 504(a) (2000) ("[A]n infringer of copyright 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. \textit{Id.} 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). \textsection 504(b); \textit{see also} 1 JOHN GLADSTONE MILLS, III ET AL., \textit{PATENT LAW FUNDAMENTALS} \textsection 6:90 (2d ed. 2002).

Alternatively, a copyright owner can seek statutory damages. \textsection 504(a). Courts have broad discretion in calculating statutory damages. According to \textsection 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." \textsection 504(c).

transformative but provide some other public benefit like education or criminal justice, or some other use promoted by Congress, merit similar protection. To the extent that the fair use doctrine deprives copyright holders of some control over their copyrights, the law of eminent domain is a useful analogy.\textsuperscript{43} Just as eminent domain or a "taking" of real property is justified for public uses,\textsuperscript{44} an encroachment on a copyright holder's rights for public uses is often justified despite the copyright holder's social or moral objection to that use. Through the Copyright Act, Congress has authorized unlicensed users to appropriate private property for a public use. Even where the government does not use the copyrighted work itself, it has condoned, in essence, a private "taking."\textsuperscript{45}

Further, when there exists a potential net increase to the copyright holder's market with no evidence of market harm, there is no need for the unlicensed user to pay the copyright holder "just compensation" or damages because there is no damage to the economic value or expectancy of the copyright. Therefore, in cases of no market harm, courts should recognize transformative and other public uses as fair, as such findings successfully balance a copyright holder's economic rights with the public interest.\textsuperscript{46} In this Article, I will examine cases in which an unlicensed use benefits a copyright holder's market. More often than not, these cases expose the doctrinal and theoretical tensions in how courts apply the fair use doctrine.

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


\textsuperscript{45} See Burk, \textit{Trespass}, \textit{supra} note 43, at 50.

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. In Part V, I propose a dichotomy between public and private uses in place of the commercial/non-commercial dichotomy prevalent in fair use jurisprudence. I then use the law of eminent domain to describe a doctrinal framework for resolving fair use claims in cases in which an unlicensed use expands a copyright holder's market and evaluate that framework against the predominant intellectual property law theories.

II. FAIR USE AND THE FOURTH FACTOR

The history of the fair use doctrine, the four factors delineated by Congress, and the U.S. Supreme Court's interpretation of fair use lay 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. The doctrine is consistent with the main purpose of U.S. copyright law, which is to give artists sufficient protection for original creations so as to provide them adequate incentives for creating new works while giving the public access to those original works.

The fair use principle can be traced to eighteenth century England, a

47. See, e.g., Anderson & Brown, supra note 33, at 158 (Fair use is a "necessary part of copyright law, the observance of which is essential to achieve the goals of that law.").
48. The term "fair use" was coined in Lawrence v. Dana, 15 F. Cas. 26, 40 (C.C.D. Mass. 1869) (No. 8136) (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.").
49. 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." (citing Marshall Leaffer, Protecting Author's Rights in a Digital Age, 27 U. Tol. L. Rev. 1, 4 (1995))).
50. "Fair use" was known as "fair abridgment" in the early English cases. See Loren, supra note 37, at 13-14.
time during which English courts\textsuperscript{51} tried to establish a delicate balance between introducing the arts and sciences into the public domain and protecting property rights of artists and inventors.\textsuperscript{52} 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.\textsuperscript{53} 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 was undertaken in good faith.\textsuperscript{54}

The first American appropriation of the fair use doctrine occurred in the 1841 case of \textsl{Folsom v. Marsh}.\textsuperscript{55} 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.\textsuperscript{56} In finding for the plaintiff, the U.S. District Court for the District of Massachusetts considered the factors\textsuperscript{57} that were later accepted universally as part of the modern fair use doctrine.\textsuperscript{58} In \textsl{Folsom}, Justice Story listed those factors as the "nature and objects of the selections made,

\begin{footnotes}
\item[52] \textit{See} Loren, \textit{supra} note 37, at 13-15 (citing \textsc{William F. Patry, The Fair Use Privilege in Copyright Law} 3, 6-18, 171 (2d ed. 1995)).
\item[53] \textit{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.").
\item[54] \textit{See} Loren, \textit{supra} note 37, at 13-15; \textit{see also} Cary, 4 Esp. at 170. In Cary, the court remarked to the jury that:
\begin{quote}
[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]. \ldots
\end{quote}
\item[56] \textit{Id.}
\item[57] \textit{Id.} at 348. The "nature and objects of the selections made" split into the first two factors of the modern fair use doctrine. \textit{Id.}
\item[58] The four factors comprising the fair use doctrine are:
\begin{enumerate}
\item \text{[T]he purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;}
\item \text{the nature of the copyrighted work;}
\item \text{the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and}
\item \text{the effect of the use upon the potential market for or value of the copyrighted work.}
\end{enumerate}
\end{footnotes}

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." 59

It took Congress 130 years following the Folsom decision to incorporate the fair use doctrine into statutory law. 60 Congress established limitations on a copyright holder’s exclusive rights in § 107 of the Copyright Act of 1976. 61 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." 62 Based on its constitutional authority, 63 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." 64 These objectives were identical to the objectives of the fair use doctrine codified in the Copyright Act of 1976. However, in recent years, scholars have questioned the judicial emphasis on protecting the rights of copyright

59. Folsom, 9 F. Cas. at 348.
60. See Loren, supra note 37, at 19-20. Loren explained that around 1955, Congress debated whether fair use needed to be codified as it had already existed for over a century as a judicially created and enforced doctrine. Id. 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. Id. (citing Subcommittee on Patents, Trademarks, and Copyrights, 86th Cong., 2d Sess., Study No. 14 on Fair Use of Copyrighted Works 39-44 (Comm. Print 1960) (primarily the work of Alan Lantman)).
61. The six exclusive rights guaranteed to copyright owners in the Copyright Act of 1976 were:
   (1) [T]o 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.
63. See U.S. Const. art. I, § 8, cl. 8. 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." Id.
holders at the expense of the public interest.65

Since 1976, courts have offered various barometers for determining the fairness of unlicensed uses.66 Judges continue to struggle with the fair use doctrine because of the uncertainty of fact-specific inquiries that are required in copyright infringement cases67 and because there does not appear to be any universal understanding of how the four factors68 play out in different types of cases.69 As a result, courts have applied fair use inconsistently, which has increased confusion over the doctrine.70

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.71 According to Lydia Loren, courts “have not

65. See, e.g., Loren, supra note 37, 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 issue without the obligation to pay the copyright owner.”); Lunney, Market Failure, supra note 42, at 996 (“The primary purpose of copyright is neither to protect the natural or moral rights of authors nor to reward copyright owners. Rather, copyright’s primary purpose is to ensure the public an adequate supply of copyrighted works.”); Ruth Okediji, Givers, Takers, and Other Kinds of Users: A Fair Use Doctrine for Cyberspace, 53 FLA. L. REV. 107, 117-24 (2001); Naomi Abe Voegli, Rethinking Derivative Rights, 63 BROOKLYN L. REV. 1213, 1217 (1997) (“[T]he ultimate goal of copyright law . . . is to ‘promote the Progress of Science and useful Arts.’”); Diane Leenheer Zimmerman, Copyright in Cyberspace: Don’t Throw Out the Public Interest With the Bath Water, 1994 ANN. SURV. AM. L. 403, 405-07 (1994).

66. See, e.g., supra note 4.


70. See, e.g., Fisher, Fair Use, supra note 69, at 1692-94; McJohn, supra note 69, at 62.

71. The question is whether the fair use doctrine benefits the defendant by providing the defendant with a larger shield or by limiting the plaintiff to a smaller sword? Fair use is usually described as a defense to copyright infringement—a “privilege” to use a copyrighted work in a reasonable manner without the copyright owner’s consent—but sometimes is
fully embraced the importance of fair use as a counterbalance to the limited monopoly rights granted to copyright owners.”72 Loren’s criticism seems most consistent with the balance that courts need to strike between public use and private rights.73 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 factors74 that Congress included in the Copyright

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described as a “limitation” upon the rights of copyright owners. Compare Rosemont Enters., Inc. v. Random House, Inc., 366 F.2d 303, 306 (2d Cir. 1966) (fair use is a “privilege” (quoting Horace G. Ball, The Law of Copyright and Literary Property 260 (1944))), and Toksvig v. Bruce Pub. Co., 181 F.2d 664, 666 (7th Cir. 1950) (same), with Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 461-62 (1984) (“Section 106 of the 1976 Act grants the owner of a copyright a variety of exclusive rights in the copyrighted work . . . . This grant expressly is made subject to §§ 107-118, which create a number of exemptions and limitations on the copyright owner’s rights.”). However, these two conflicting views are often confused. See, e.g., H.R. Rep. No. 94-1476, at 65, reprinted in 1976 U.S.C.C.A.N. at 5678. The House Report stated:

The judicial doctrine of fair use, one of the most important and well-established limitations on the exclusive right of copyright owners, would be given express statutory recognition for the first time in section 107. The claim that a defendant’s acts constituted a fair use rather than an infringement has been raised as a defense in innumerable copyright actions over the years, and there is ample case law recognizing the existence of the doctrine and applying it.

Id.

72. Loren, supra note 37, at 5. Professor Loren explains, “[i]t is in some ways a unique idea that the public has the right to make certain kinds of uses of another’s property. These permitted uses, however, are an important part of what allows copyright to promote knowledge and learning in the United States.” Id. (citing United States v. Dowling, 473 U.S. 207, 216 (1985); L. Ray Patterson & Stanley W. Lindberg, The Nature of Copyright: A Law of Users’ Rights 109-122 (1991); L. Ray Patterson, Copyright and the “Exclusive Right” of Authors, 1 J. Intell. Prop. L. 1, 37 (1993); Richard Stallman, Reevaluating Copyright: The Public Must Prevail, 75 Or. L. Rev. 291, 293 (1996).

73. This is the author’s view of the fair use defense. At least some scholars believe that fair use sets a boundary between where the copyright holder’s rights end and where the public’s rights begin. Compare John Carlin, Culture Vultures: Artistic Appropriation and Intellectual Property Law, 13 Colum.-Vla J.L. & Arts 103, 135 (1988) (arguing that fair use “is an existing doctrine which the courts can employ to discriminate between purely commercial exploitation and the need for art to develop and create on its own terms, not those dictated by copyright law”), and Loren, supra note 37, at 3-4 (“Copyright law in this country is often spoken of as a balance between the rights granted to copyright owners and the rights guaranteed to the users of copyrighted materials.”), and L. Ray Patterson, Free Speech, Copyright and Fair Use, 40 Vand. L. Rev. 1, 7 (1987) (characterizing copyright as “an encroachment on the public domain [that] . . . can be justified only if it provides the public with some form of compensation”), with Landes, supra note 34, at 10 (“Fair use limits the rights of the copyright holder by allowing unauthorized copying in circumstances that are roughly consistent with promoting economic efficiency.”).

74. Congress did not intend for the four factors to be exclusive. Harper & Row,
Act of 1976 are:

(1) [T]he 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.75

Courts have generally interpreted the law to require a balancing of all four factors.76

According to § 107, legitimate fair use purposes are “criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research . . .”.77 However, uses for those specific purposes are not exempt from the four factor analysis,78 nor are all other uses excluded.79 Consequently, fair use analysis is viewed as a

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76. See, e.g., 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.”).
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.

79. See id. at 65, reprinted in 1976 U.S.C.C.A.N. at 5678 ("The examples enumerated . . . while by no means exhaustive, give some idea of the sort of activities the
difficult,\textsuperscript{80} fact-intensive,\textsuperscript{81} and discretionary process requiring case-by-case examination.\textsuperscript{82}

1. \textit{First Factor: \textquotedblleft Purpose and Character of Use\textquotedblright}

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.\textsuperscript{83} 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.\textsuperscript{84} A non-commercial use militates toward a finding of fair use, whereas a commercial use weighs against such a finding.\textsuperscript{85}

\textsuperscript{80} Dellar \textit{v.} Samuel Goldwyn, Inc., 104 F.2d 661, 662 (2d Cir. 1939). Judge Learned Hand described the fair use doctrine as \textquoteleft\textquoteleft the most troublesome in the whole law of copyright . . . .\textquoteright\textquoteright Id.


\textsuperscript{82} See, \textit{e.g.}, \textit{Campbell}, 510 U.S. at 577 (“The task is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis.”); \textit{Harper \& Row}, 471 U.S. at 560 (“[E]ach case . . . must be decided on its own facts” (quoting H.R. REP. NO. 94-1476, at 65, \textit{reprinted in 1976 U.S.C.C.A.N.} at 5679)).

\textsuperscript{83} The precise inquiry undertaken by the courts is not whether the unauthorized use is part of a commercial work, but whether the unlicensed user exploited the copyrighted work for commercial gain. See, \textit{e.g.}, \textit{Harper \& Row, Publishers, Inc. v. Nation Enters.}, 471 U.S. 539, 562 (1985) (“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.”).


\textsuperscript{85} See, \textit{e.g.}, \textit{Sony Corp. of Am. v. Universal City Studios, Inc.}, 464 U.S. 417, 451 (1984) (finding that “although every commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright, noncommercial uses are a different matter.”). 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. \textit{See, e.g.}, \textit{Patry \& Perlmutter, supra} note 23, at 670-71. They write how courts’ reliance on whether an unlicensed use is commercial is misguided:

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.

\textit{Id.} (citing \textit{Harper \& Row}, 471 U.S. at 539; \textit{Sony Corp. of Am.}, 464 U.S. at 417; \textit{Sega Enters.}
The second dichotomy\textsuperscript{86} is between transformative uses\textsuperscript{87} and non-transformative uses.\textsuperscript{88} Transformative uses that courts have looked upon favorably include commentaries,\textsuperscript{89} criticisms,\textsuperscript{90} and parodies\textsuperscript{91} because

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86. Courts take up the question of whether an unlicensed use is transformative primarily under the first fair use factor. Bunker, \textit{supra} note 42, 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.").

87. A transformative use alters or adds to the copyrighted work. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 577 (1994); Lape, \textit{supra} note 74, at 707; Leval, \textit{Fair Use Standard, supra} note 23, 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.").

88. See, \textit{e.g.}, Castle Rock Entmt'\textsc{t}, Inc. v. Carol Publ'g Group, Inc., 150 F.3d 132, 142 (2d Cir. 1998) (finding ['a]ny transformative purpose possessed by \textit{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 \textit{The Cat in the Hat} is not conjured up by the focus on the Brown-Goldman murders or the O.J. Simpson trial"); Ty, Inc. v. Publ'ns Int'l, Ltd., 81 F. Supp. 2d 899, 905 (N.D. Ill. 2000) (finding that the books about beanie babies "are not transformative, and, quite likely, not meant to be transformative"); Paramount Pictures Corp. v. Carol Publ'g Group, Inc., 11 F. Supp. 2d 329, 335 (S.D.N.Y. 1998) (finding the book non-transformative because the "chapters do not add anything substantial that is new to the \textit{Star Trek} story"); Bunker, \textit{supra} note 42, at 2. Matthew Bunker stated:

The transformative use requirement is not one found among the statutory fair use factors, and the Court acknowledged in \textit{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.


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

90. See, \textit{e.g.}, Sundeman v. Seajay Soc'y, Inc., 142 F.3d 194, 202-03 (4th Cir. 1998) ("While [the paper] does quote from and paraphrase substantially \textit{Blood of My Blood}, its purpose is to criticize and comment on Ms. Rawlings' earliest work. Thus, Blythe's
they add value to the public domain and are not mere replications of what the copyright holder has already created.92 However, courts have also acknowledged that many uses that are not transformative—especially uses for educational and other non-commercial purposes—are fair.93

The final dichotomy is between the use of a copyrighted work for its factual or historical content94 versus use for its mode of expression.95

transformative paper fits within several of the permissible uses enumerated in § 107.”). 91. 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; “the 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 Coop. 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, did not provide 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 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.” Campbell, 510 U.S. at 590-91; see, e.g., SunTrust Bank, 268 F.3d at 1268 (“Parody, which is directed toward a particular literary or artistic work, is distinguishable from satire, which more broadly addresses the institutions and mores of a slice of society.”). The court in Barban v. Time Warner, Inc. stated:

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.


92. See, e.g., Campbell, 510 U.S. at 579 (“Although such transformative use is not absolutely necessary for a finding of fair use, the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works.”); Leval, Fair Use Standard, supra note 23, 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.”).

93. 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., 464 U.S. at 421 (finding non-transformative, non-commercial home videotaping a fair use).

94. See, e.g., Harper & Row, 471 U.S. at 563 (“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.”); Einhorn, supra note 42, at 591 n.16. Matthew Einhorn stated:

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.
Based on the original intent of U.S. copyright law—that is, to protect creative expression, but not facts, ideas, or history—courts have looked unfavorably upon the duplication of copyrighted modes 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 as part of the public domain and not something to which the copyright holder has exclusive rights. See, e.g., Dratler, supra note 69, 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 (1879) (copyright law does not protect a system of accounting forms); Miller v. Universal City Studios, Inc., 650 F.2d 1365, 1370-72 (5th Cir. 1981); Hoehling v. Universal City Studios, Inc., 618 F.2d 972, 978-79 (2d Cir. 1980); 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); 1 Melville B. Nimmer & David Nimmer, Nimmer on Copyright §§ 2.03[D], 2.11[A] (1988) [hereinafter Nimmer on Copyright]); John R. Therien, Comment, Exercising the Specter of a “Pay-Per-Use” Society: Toward Preserving Fair Use and the Public Domain in the Digital Age, 16 Berkeley Tech. L.J. 979, 1005 (2001). John Therien stated:

Where it is not clear whether the information presented in the secondary use is duplicative, courts can more easily presume the use to be fair if the primary work is predominantly factual; ... [w]here the primary work is predominantly fanciful, it is further from the core of information necessary to public decisionmaking. Therefore, a secondary use is less likely to present information of public value.

Therien, supra, at 1005.

97. See, e.g., Dr. Seuss Enters., 109 F.3d at 1400 (holding that in order to be a fair use, the parody must build solely on the subject of the copyrighted work itself; a parody simply taking the copyrighted work’s style or tone will not constitute fair use); see also supra notes 94-96.

98. See 17 U.S.C. § 102(b) (2000) (“In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”); Douglas Y’Barbo, The Heart of the Matter: The Property Right Conferred by Copyright, 49 Mercer L. Rev. 643, 668 (1998) (“[C]opyright does not protect ideas but only the expression of those ideas.”).
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 available to the public prior to its unlicensed use. Courts provide unpublished works or works that have not otherwise been publicly distributed greater protection 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.

3. **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.

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103. See, e.g., Baker v. Selden, 101 U.S. 99, 104 (1879) (copyright on a book describing a functional system of bookkeeping does not grant the copyright holder exclusive rights over the subsequent use and description of that system); Sega Enters. Ltd. v. Accolade, Inc., 977 F.2d 1510, 1524-25 (9th Cir. 1992) (finding fair the use of functional elements of a computer program).
104. See supra note 101.
Courts exercise considerable latitude in weighing the extent of copying, with one court holding that even "a small degree of taking is sufficient to transgress fair use if the copying is [of] the essential part of the copyrighted work." Other courts have ruled that using a small amount of copyrighted material that is unrelated to the work’s creative core is de minimis and therefore does not weigh against fair use, and could even be cause to reject the copyright holder’s claim of infringement. But most courts agree that the extensive use of copyrighted material for the purpose of copying the mode of expression never constitutes fair use. Judges commonly make an effort to weigh the third factor by determining whether substantial similarities exist between the original work and the unlicensed use.

1044, 1050 (2d Cir. 1983) (finding that use of twenty-nine words from article of 2100 words was insubstantial and therefore fair use); Roy Export Co. v. Columbia Broad. Sys., Inc., 503 F. Supp. 1137, 1145 (S.D.N.Y.), aff’d, 672 F.2d 1095 (2d Cir. 1982) (finding that use of film excerpts, though minimal, was qualitatively substantial).


109. See, e.g., Toulimin v. Rice-Kumler Co., 316 F.2d 232, 232 (6th Cir. 1963); 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”); 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.”).

110. See Ringgold v. Black Entm’t Television, Inc., 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 undertake an elaborate fair use analysis in order to uphold a defense.” Id.; see also Leval, Fair Use Standard, supra note 23, 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, 188-89 (8th Cir. 1953); 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); Rokeach v. Avco Embassy Pictures Corp., No.-75 Civ.-49, 1978 U.S. Dist. LEXIS 20101, at *20-21 (S.D.N.Y. 1978); Greenbie v. Noble, 151 F. Supp. 45, 70 (S.D.N.Y. 1957)).

111. See, e.g., Dr. Seuss Enters. v. Penguin Books USA, Inc., 109 F.3d 1394, 1400 (9th Cir. 1997); Sheldon v. Metro-Goldwyn Pictures Corp., 81 F.2d 49, 56 (2d Cir. 1936) ("[N]o plagiarist can excuse the wrong by showing how much of his work he did not pirate."); see supra note 97.

112. Courts also 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" test 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 of infringement. See, e.g.,
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,"\textsuperscript{113} yet wide variations exist in defining potential markets\textsuperscript{114} and the value\textsuperscript{115} of original works. Most courts seem to limit their examination to the "harms" posed by unlicensed uses\textsuperscript{116} without considering all of the market "effects"—both

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, "[a]s we have already indicated in our discussion of substantial similarity, [The Wind Done Gone] appropriates a substantial portion of the protected elements of [Gone With the Wind]." *Id.* at 1272.

113. Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 566 (1985). *But see* 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."); Leval, *Fair Use Standard, supra* note 23, at 1124 ("Although the market factor is significant, the Supreme Court had somewhat overstated its importance.").

114. *See* Africa, *supra* note 81, at 1155. Matthew Africa stated: 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."

*Id.*

115. *See, e.g.*, SunTrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1274 (11th Cir. 2001) ("'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.'" (quoting 3 Nimmer on Copyright, *supra* note 96, § 13.05[A][4], at 181 (2001) (citing Consumers Union of United States, Inc. v. General Signal Corp., 724 F.2d 1044 (2nd Cir. 1993)); Triangle Publ'n's, Inc. v. Knight-Ridder Newspapers, Inc., 626 F.2d 1171, 1177 (5th Cir. 1980) (recognizing the difficulty in calculating the value of the copyright on TV Guide; "[w]e are simply unable to find any effect other than possibly de minimus on the commercial value of the copyright."); Africa, *supra* note 81, at 1155. Matthew Africa stated: 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.

Africa, *supra* note 81, at 1155.

116. *See, e.g.*, Campbell, 510 U.S. at 590. 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.

*Id.* (emphasis added) (quoting 3 Nimmer on Copyright, *supra* note 96, § 13.05[A][4], at 13-102.61 (1993)); Harper & Row, 471 U.S. at 566-67 ("'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) (internal citations omitted) (quoting 1 Nimmer on Copyright, *supra* note 96, § 1.10[D], at 1-87 (1984))); Kelly v. Arriba Soft Corp., 336 F.3d 811, 821 (9th Cir. 2003) (quoting Campbell, 510 U.S. at 590); A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1016 (9th Cir. 2001). The court in A&M Records stated:
beneficial and harmful—as § 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 or transformative scenarios, however, courts place the burden on the copyright holder to show market harm. As they analyze market 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.

“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.

A&M Records, Inc., 239 F.3d at 1016 (emphasis added) (internal citations omitted) (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 Entm’t, Inc. v. Carol Publ’g Group, Inc., 150 F.3d 132, 145 (2d Cir. 1998) (quoting Campbell, 510 U.S. at 590); Infinity Broadcast Corp., 150 F.3d at 110 (quoting Campbell, 510 U.S. at 590); 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 whether unrestricted and widespread dissemination would harm the potential market for the original and derivatives of The Cat in the Hat.”) (emphasis added).


118. 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 69, at 321 (“If the use is commercial, the defendant bears the burden, as is generally appropriate for an element of an affirmative defense.”).

119. 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.”).

120. See, e.g., Sony Corp. of Am., 464 U.S. at 451. The Court stated: 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.

Id.

121. 3 Nimmer on Copyright, supra note 96, § 13.05[A][4], at 13-183 (2003) (quoted in several cases, e.g., Campbell, 510 U.S. at 590; Arriba, 336 F.3d at 821; Nunez, 235 F.3d
The copyright holder’s potential market includes uses that substitute for, \(^{122}\) but not uses that merely complement, \(^{123}\) the copyrighted work. As such, courts consider any harm from a competing work to the actual or potential derivative \(^{124}\) markets of the copyright holder \(^{125}\) but not speculative harm to markets that are ancillary to the copyrighted work. \(^{126}\) The United States Court of Appeals for the Second Circuit defined what constituted the copyright holder’s potential market in *American Geophysical Union v. Texaco, Inc.*, recognizing only “traditional, reasonable, or likely to be developed [derivative] markets” in determining whether the publisher suffered a market loss when Texaco researchers photocopied journal articles. \(^{127}\) While the court felt that the fourth factor ultimately favored the plaintiff, it did not include the plaintiff’s alleged loss

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\(^{122}\) See, e.g., *Campbell*, 510 U.S. at 587. Uses that are substitutes for a copyrighted work compete in the same market with the original work. *Id.*


A “derivative work” is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent[s] an original work of authorship, is a “derivative work.”

*Id.*

\(^{125}\) See *Campbell*, 510 U.S. at 590 (“The enquiry ‘must take account not only of harm to the original but also of harm to the market for derivative works.”) (quoting Harper & Row, 471 U.S. at 568); *SunTrust Bank*, 268 F.3d at 1274-1275 (“An examination of the record . . . discloses that SunTrust focuses on the value of [*Gone With the Wind*] and its derivatives, but fails to address and offers little evidence or argument to demonstrate that [*The Wind Done Gone*] would supplant demand for SunTrust’s licensed derivatives.”).

\(^{126}\) See, e.g., *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 935-936 (2d Cir. 1994). An ancillary market is a market for goods, based on or related to an original work, that do not compete with the original work and are only tangentially related to the market for such work. See, e.g., United States v. Syufy Enters., 712 F. Supp. 1386, 1389 n.3 (N.D. Cal. 1989), aff’d, 903 F.2d 659 (9th Cir. 1990) (describing the ancillary markets for motion pictures as including television and home video).

\(^{127}\) *Am. Geophysical Union*, 60 F.3d at 930.
in subscription revenues in measuring market harm, finding that it was unreasonable to assume that every photocopied article represented a lost journal purchase. 128

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. 129 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 existed for such licensing. 130 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 existed for such licenses and, if so, the extent of such a market, is critical to the fourth factor analysis in cases where there is

128. Id. at 930-31.
129. See, e.g., Campbell, 510 U.S. at 592 (“The market for potential derivative uses includes only those uses that creators of original works would develop or license others to develop.”); Ty, Inc. v. Publ’ns Int’l, Ltd., 81 F. Supp. 2d 899, 906 (N.D. Ill. 2000). The court in Ty, Inc. v. Publications International, Ltd. stated:

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 . . . .

Ty, Inc., 81 F. Supp. 2d at 906.
130. See 1 Nimmer On Copyright, supra note 96, § 13.05[A][4], at 13-184 (2003). Melville Nimmer and David Nimmer stated:

[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.

Id.; see also Patry & Perlmutter, supra note 23, at 687-88. 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.

Patry & Perlmutter, supra note 23, at 687-88.
a possible benefit to the copyright holder's market from the unauthorized use. Consequently, it is imperative when evaluating the effect of the unlicensed use on the copyright holder's market to factor in unrealized licensing revenues only where such a market for licensing existed.

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 markets for copyrighted works. 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 America 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 constitute contributory infringement of the plaintiffs' copyrights.
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. Based on its interpretation of the fourth factor, the majority found that the plaintiffs had failed to demonstrate any likelihood of harm to the potential markets for the copyrighted works and, in fact, alluded to potential market increases through the practice of "time-shifting"—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 and suggested that works with broad secondary markets might deserve greater protection because of the increased likelihood of commercial harm. 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 public interest.


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 that were being prepared for publication. Again, the Court considered all four fair use factors in

136. Id. at 454-55 n.40.
137. 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.").
138. Id. at 453-54.
139. See id. at 456.
140. Id. at 448 n.31. The Court stated:
"Since 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... [T]he endless variety of situations and combinations of circumstances that can rise in particular cases precludes the formulation of exact rules in the statute."
Id. (quoting H.R. REP. NO. 94-1476, at 65-66 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5679-80). The Court was clear that it was "applying the copyright statute, as it now reads, to the facts as they have been developed in this case." Id. at 456.
141. 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.").
142. See id. at 449-51.
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 the opportunity to clarify for 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

Stewart v. Abend 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 sued for infringement. Writing for the U.S. Supreme Court majority, Justice

144. Id. at 560-69.
145. See id. at 569 ("[The Court of Appeals] erred, as well, in overlooking the unpublished nature of the work and the resulting impact on the potential market for first serial rights of permitting unauthorized prepublication excerpts under the rubric of fair use."). But see id. at 602 (Brennan, J., dissenting). Justice Brennan stated:

[T]he Court properly focuses on whether The Nation's use adversely affected Harper & Row's serialization potential and not merely the market for sales of the Ford work itself. Unfortunately, the Court's failure to distinguish between the use of information and the appropriation of literary form badly skews its analysis of this factor. . . . [W]hatever the negative effect on the serialization market, that effect was the product of wholly legitimate activity.

Id. (Brennan, J., dissenting).

146. Id. at 553. The Court stated:
First publication is inherently different from other § 106 rights in that only one person can be the first publisher; as the contract with Time illustrates, the commercial value of the right lies primarily in exclusivity. Because the potential damage to the author . . . is substantial, the balance of equities in evaluating such a claim of fair use inevitably shifts.

Id.

147. See id.
148. See supra note 4.
150. 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. Id. at 207.
151. Id. at 212-13.
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{152} Indeed, the court said the claim went against the copyright law’s express protection of derivatives.\textsuperscript{153}

Before affirming the validity of the copyright, the Court examined all four fair use factors.\textsuperscript{154} 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 would 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 work.\textsuperscript{158} In contrast to its assertion that the fourth factor was “the most important, and indeed, the central fair use factor,”\textsuperscript{159} 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.”\textsuperscript{160}

The Court in \textit{Stewart} overcame the case’s complicated chain of successive works and past licenses by providing exclusive rights to the then-current copyright holder.\textsuperscript{161} 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

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\textsuperscript{152} \textit{Id.} at 216.

\textsuperscript{153} \textit{Id.} at 222-23. The Court stated: 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 \textit{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.” \textit{Id.} (quoting 1 \textit{Nimmer on Copyright}, \textit{supra} note 96, § 3.07[A], at 3-23 to 3-24 (1989)).

\textsuperscript{154} \textit{See id.} at 237-38.

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


\textsuperscript{157} \textit{Id.} at 238 (citing \textit{Harper & Row}, 471 U.S. at 564-65).

\textsuperscript{158} \textit{Id.} at 238.

\textsuperscript{159} \textit{Id.} (quoting 3 \textit{Nimmer on Copyright}, \textit{supra} note 96, § 13.05[A], at 13-81 (1989)).

\textsuperscript{160} \textit{Id.} at 238.

\textsuperscript{161} \textit{Id.}
interest in the original story.\textsuperscript{162} Consequences to the entertainment industry from the decision have included producers obtaining all necessary copyrights, including expectancy rights,\textsuperscript{163} before producing a movie to avoid losing their investments when copyrights change hands.\textsuperscript{164} Potentially, this new hurdle negatively affected the public interest and private economic incentives alike, as increased production costs likely decreased the number of new productions.


In this case,\textsuperscript{165} the U.S. Supreme Court strove to balance all four fair use factors.\textsuperscript{166} The majority ruled that the defendant’s use could qualify as fair, even though a song written and performed by 2 Live Crew had similarities to the original Roy Orbison recording.\textsuperscript{167} In its ruling, the Court emphasized that the importance of the fourth factor varies.\textsuperscript{168} 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,”\textsuperscript{169} 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.”\textsuperscript{170} In this particular case, the Court found that the public interest benefits of the transformed recording were strong but

\textsuperscript{162} See id. The United States Court of Appeals for the Ninth Circuit explicitly 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 NIMMER ON COPYRIGHT, supra note 96, § 13.05[B], at 13-84 (1989))).

\textsuperscript{163} “Expectancy” in this context means “[t]he 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).


\textsuperscript{165} See Part I.B. for a detailed description of the facts of this case.


\textsuperscript{167} Id. at 588, 594. Plaintiff, Acuff-Rose, did not write the song. Id. at 571. Roy Orbison wrote the song, entitled Oh Pretty Woman, and he sold his rights in it to the plaintiff. Id.

\textsuperscript{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.”).

\textsuperscript{169} Id. at 590 (quoting Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 568 (1985)).

\textsuperscript{170} Id. at 593 n.24.
remanded the case so that the trial court could weigh the uncertain harm to the copyright holder's market.\footnote{Id. at 593-94.}

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.\footnote{See id. at 590 n.21 (citing Leval, Fair Use Standard, supra note 23, at 1124 n.84).} In that footnote, the Court suggested that even though such use may have increased the primary market for the copyrighted work, that potential increase does not, by itself, result in fair use.\footnote{See id.} Therefore, any market effect, such as stimulating demand for the original song, must be considered along with the other three factors in any fair use determination.\footnote{See id.} Despite its previous concern for the economic impact of unlicensed use in Harper & Row and Sony, the Court refused to directly confront the issue of potential market benefit in Campbell. The Justices also offered no justification for why certain unlicensed uses should not be fair 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 interest in cases where an unlicensed use potentially benefits a copyright holder’s market.

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, Theories of Intellectual Property, in NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY 168, 168-99 (Stephen Munzer ed., 2001) [hereinafter Fisher, Theories].} 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 market, they do little to help establish a consistent methodology for balancing that benefit with other factors in the fair use equation.

171. Id. at 593-94.
172. See id. at 590 n.21 (citing Leval, Fair Use Standard, supra note 23, at 1124 n.84).
173. See id.
174. See id.
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.\(^{176}\) Theorists who ascribe to this model believe that courts should maximize social welfare by protecting the exclusive economic rights of creators of original works to give them the incentive to create new works that benefit the public.\(^{177}\) 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 royalties.\(^{178}\) When unlicensed users, with their lower costs of production, fail to compensate copyright holders for these "costs of expression," they decrease copyright holders’ market share, which discourages artists and authors from creating new works.\(^{179}\)

Since maximum social welfare cannot be achieved in the absence of new inventions and creative works, utilitarian theorists support an approach in which artists, writers, and inventors are granted exclusive rights to their works and inventions for a fixed period of time before the intellectual property enters the public domain.\(^{180}\) That approach reflects the language in the U.S. Constitution granting Congress the authority to promote science and the arts "by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."\(^ {181}\) The current debate about the length of the copyright term illustrates how it is impossible to make a precise determination as to the extent of protection needed to maximize the artist’s or author’s incentive to create.\(^ {182}\)

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

\(^{176}\) See Fisher, *Fair Use*, supra note 69, 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").

\(^{177}\) See Fisher, *Theories*, supra note 175, at 175.

\(^{178}\) Landes & Posner, *supra* note 33, at 343-44. Utilitarian theorists believe that courts should find an unlicensed use fair only when there exists high transaction costs to licensing. *See generally supra* note 33.

\(^{179}\) See Landes & Posner, *supra* note 33, at 343-44.


\(^{181}\) U.S. CONST. art. I, § 8, cl. 8.

\(^{182}\) See Fisher, *Theories*, supra note 175, at 172.
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 increased term of copyright protection.\textsuperscript{183} The optimization school of thought focuses on disseminating information about specific consumer demands to intellectual creators and encouraging them to respond to those demands.\textsuperscript{184} According to that perspective, consumer welfare is maximized when consumers are getting exactly what they want.\textsuperscript{185} 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.\textsuperscript{186} Only the first creator will obtain the copyright; therefore, the efforts of the others constitute waste.\textsuperscript{187} 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.

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\textsuperscript{183} See Fisher, \textit{Theories, supra} note 175, at 178. Professor Fisher stated that under the incentive theory:

Each 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.


\textsuperscript{184} Fisher, \textit{Theories, supra} note 175, at 178-79 (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, \textit{Copyright's Highway: From Gutenberg to the Celestial Jukebox} 178-79 (1994); Harold Demsetz, \textit{Information and Efficiency: Another Viewpoint}, 12 J. L. & Econ. 1 (1969))).

\textsuperscript{185} Id.


\textsuperscript{187} Id.
\end{flushleft}
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 have made some effort to transform original works suggests that the fair use doctrine is socially beneficial, as those who want to transform an original work but are not able to overcome high transaction costs and obtain a license receive protection under the fair use doctrine. It could also be argued that fair use exerts a positive impact on societal welfare by encouraging greater dissemination of copyrighted works. However, without adequate protection against imitation and dissemination, artists would be discouraged from investing themselves in new works, causing a net loss to society.\(^{188}\) In short, utilitarian theorists have recognized the need to balance countervailing public and private considerations and have developed economic models in support of that need, but so far those models have proven insufficient for helping courts strike such a balance.\(^{189}\)

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.\(^{190}\) Furthermore, the current ad hoc approach to fair use can stymie users who want to identify their rights, stopping potentially legitimate fair uses and negatively affecting societal welfare.\(^{191}\) 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.\(^{192}\) Neither scenario upholds the utilitarian

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188. See supra note 34. The same concerns arise in patent law. See Lim, supra note 180, 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.").


Serious difficulties attend efforts to extract from any one of [the schools of thought] answers to concrete doctrinal problems.

\[\ldots\]

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?

*Id.* at 180-81.


191. *Id.* at 1554-58.

192. *Id.* at 1554.
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 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 through increased sales without any additional effort. In circumstances where a creator lacks the financial resources to penetrate a new market, copying can stimulate the copyright holder's sales of his or her original work. But utilitarianism also touches on the concept of laches—that is, not rewarding those who "sleep on their rights." 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. 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. 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.

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 makes licensing fee

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194. See *id*.


196. 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 23, at 688. William Patry and Shira Perlmutter stated:

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.

*Id.*
rationalizes irrelevant in these situations because copyright holders have no
desire to license their works. 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 theory, 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
time when stating, “[s]acrificial days devoted to... creative activities
deserve rewards commensurate with the services rendered.” The Court
in Mazer, however, held that statuettes replicated in manufactured lamp
bases were not the type of creative works protected by U.S. copyright law
because they were transformed into functional commodities.

The United States Court of Appeals for the Second Circuit in
Jeweler’s Circular Publishing Co. v. Keystone Publishing Co. relied on
labor theory in stating that “[n]o one can legally take the results of the labor
and expense which another has 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.’” The Court protected the
plaintiff’s investment of labor, finding that the defendant infringed the
plaintiff’s copyright on a directory of jewelers. However, more recently,
the U.S. Supreme Court ruled in Feist Publications, Inc. v. Rural

197. *See* Fisher, *Theories, supra* note 175, at 174 (citing Stewart E. Sterk, *Rhetoric and
Reality in Copyright Law*, 94 Mich. L. Rev. 1197 (1996); Lloyd Weinreb, *Copyright for
Functional Expression*, 111 Harv. L. Rev. 1149, 1211-14 (1998); Alfred C. Yen, *Restoring
the Natural Law: Copyright as Labor and Possession*, 51 Ohio St. L.J. 517 (1990)).

198. *See, e.g.*, CCC Info. Servs., Inc. v. Maclean Hunter Mkts. Reports, Inc., 44 F.3d
61, 65 (2d Cir. 1994) (holding that market compilations manifesting originality were entitled
to protection under copyright law); Boucher v. Du Boyes, Inc., 253 F.2d 948, 949-50 (2d
Cir. 1958); Jeweler’s Circular Publ’g Co. v. Keystone Publ’g Co., 281 F. 83, 95 (2d Cir.
1922).

200. *Id.*
201. *Jeweler’s Circular Publ’g Co.*, 281 F. at 95 (quoting Jefferys v. Boosey, 10 Eng.
Rep. 681 (H.L. 1854)).
202. *Id.* at 95.
Telephone Service Co., Inc. that labor theory was inconsistent with the language of the Copyright Acts of 1909 and 1976:

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."

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

The most common concern of applying labor theory to intellectual property law is reconciling how labor performed with a resource "held in common" entitles 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

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204. See Gerard J. Lewis, Jr., Comment, Copyright Protection for Purely Factual Compilations Under Feist Publications, Inc. v. Rural Telephone Service Co.: How Does Feist Protect Electronic Data Bases of Facts?, 8 SANTA CLARA COMPUTER & HIGH TECH. L.J. 169, 191-193 (1992) (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.").

205. See generally III. Bell Tel. Co. v. Haines & Co., 905 F.2d 1081 (7th Cir. 1990), vacated, 499 U.S. 944 (1991); Rockford Map Publishers, Inc. v. Directory Serv. Co. of Colo., Inc., 768 F.2d 145 (7th Cir. 1985); Schroeder v. William Morrow & Co., 566 F.2d 3, 5 (7th Cir. 1977) ("['O']nly 'industrious collection,' not originality in the sense of novelty, is required."); Leon v. Pac. Tel. & Tel. Co., 91 F.2d 484 (9th Cir. 1937); Lewis, supra note 204, at 186 ("Courts have often granted copyright protection based solely on the compiler's efforts, in order to protect the compiler's investment of time and money expended in creating a compilation.").


A principle that property results from mixing labor with the common could be absurdly overbroad. Thus Robert Nozick has asked "if I own a can of tomato juice and spill it into the sea . . . do I thereby come to own the sea, or have I foolishly dissipated my tomato juice?"

Gordon, Self-Expression, supra, at 1565 (quoting Robert Nozick, Anarchy, State and Utopia 175 (1974)).
problems easily arise in deciding individual cases.\textsuperscript{207} For example, one issue is whether an invention that is an embodiment of a patent is a resource "held in common" so that competitors can try to replicate it through reverse engineering as long as they do not infringe the patent. Last, defining intellectual labor is considered an ambiguous goal, one which lacks consensus within the legal community.\textsuperscript{208}

\section{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,\textsuperscript{209} they perceive that condoning certain unlicensed uses interferes with the natural rights of copyright holders.\textsuperscript{210} They want to ensure copyright holders are properly compensated for their investments; consequently, proponents of labor theory argue that restricting public access to copyrighted works is an unavoidable by-product of safeguarding natural rights.\textsuperscript{211}

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. 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 in which the copyright holder holds private economic rights.

\textsuperscript{207} Fisher, \textit{Theories}, supra note 175, at 186 ("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?").

\textsuperscript{208} \textit{Id.} at 185-86. Professor Fisher stated:

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).

\textit{Id.} at 185.

\textsuperscript{209} See, e.g., Jeweler's Circular Publ'g Co. v. Keystone Publ'g Co., 281 F. 83, 95 (2d Cir. 1922); Lewis, \textit{supra} note 204, at 186.

\textsuperscript{210} See Gordon, \textit{Self-Expression}, \textit{supra} note 206, at 1544-45; Lacey, \textit{supra} note 109, at 1545.

\textsuperscript{211} See generally Dane S. Ciolino & Erin A. Donelon, \textit{Questioning Strict Liability in Copyright}, 54 Rutgers L. Rev. 351 (2002); Lacey, \textit{supra} note 109, at 1539-41; Lim, \textit{supra} note 180, at 574-79.
2. **Labor Theory and Market Benefits**

As an absolutist principle, labor theory generally promotes the idea that creators should have ultimate control over their creations.\(^{212}\) Natural rights purists believe in protecting the "fruits" of a creator's labor and tend to look unfavorably on unlicensed uses.\(^{213}\) 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. Personality Theory**

Based on the writings of Immanuel Kant and Georg Wilhelm Friedrich Hegel, personality theorists support private property rights when doing so "promote[s] human flourishing" via the preservation of such human needs as self-expression and personal identity.\(^{214}\) According to this theory, expressive or moral rights should outweigh protecting the economic incentives of copyright holders.\(^{215}\) 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.\(^{216}\)

The personality theory is popular in Europe, perhaps because its moral rights focus is compatible with the core of the European civil law system.\(^{217}\) Moral rights have been largely rejected in the United States.\(^{218}\)


\(^{213}\) See Gordon, *Self-Expression, supra* note 206, at 1540; Lacey, *supra* note 109, at 1541.

\(^{214}\) See Fisher, *Theories, supra* note 175, at 171-72, 189-90.


\(^{216}\) See Fisher, *Theories, supra* note 175, at 171-72.


\(^{218}\) See, e.g., Gilliam v. Am. Broad. Cos., 538 F.2d 14, 24 (2d Cir. 1976) ("American copyright law, as presently written, does not recognize moral rights or provide a cause of
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 defined as fundamental. The challenge of defining needs as essential or peripheral is problematic when determining what forms of expression deserve protection. Furthermore, U.S. property law emphasizes economic rights, which are hard to reconcile with personality theory.

1. Personality Theory and Fair Use

Personality theory highlights the relationship between creators and their creations, making societal benefits a secondary concern that is often considered irrelevant. In accordance with the theory's ultimate objective of preserving the creator's personality, fair uses are largely non-existent.

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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, 3 (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, 422 (2003). Monica E. Antezana stated:

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.

Antezana, supra, at 422 (citing CRAIG JOYCE ET AL., COPYRIGHT LAW 35 (5th ed. 2001)).


221. See Lacey, supra note 109, at 1542.

222. See Fisher, Theories, supra note 175, at 189-90 (citing JEREMY WALDRON, THE RIGHT TO PRIVATE PROPERTY 295-97, 300-06, 308-10 (1988)).

223. See id.

224. See id.
because otherwise the use of creators' personalities without permission would be legitimized.\textsuperscript{225} 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 discretion over how expressions of artists' and authors' personalities are used.\textsuperscript{226}

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{227} 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{228} That suggestion goes to the core of personality theory. Personality theorists are more likely to support such a distinction because it gives weight to the expressive value of creative works.

2. \textit{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.\textsuperscript{229} Instead, since they emphasize the 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.\textsuperscript{230} 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 outwardly

\textsuperscript{225} See id. at 174.
\textsuperscript{226} See Lacey, supra note 109, at 1583.
\textsuperscript{227} See Hughes, \textit{Philosophy}, supra note 219, at 339-44.
\textsuperscript{229} See supra notes 214-215 and accompanying text discussing how personality theorists view economic concerns as secondary to creators' moral rights.
\textsuperscript{230} See Hughes, \textit{Philosophy}, supra note 219, at 330.
oppose unlicensed uses on moral grounds solely to protect their economic interests. Because U.S. copyright law has 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

Social planning theory recognizes property rights in general and intellectual property rights in particular when doing so promotes the development of a just society. Proponents of the theory231 argue that to achieve that 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.233 The usefulness of social planning theory in interpreting intellectual property law is severely limited, especially because no universal definition exists for a "just and attractive society" or the elements necessary to create such a society.234 Indeed, the particular elements of

231. See Fisher, Theories, supra note 175, at 175.


233. See Fisher, Theories, supra note 175, at 172-73 (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 difficult 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. JEREMY BENTHAM, DEONTOLOGY; TOGETHER WITH A TABLE OF THE SPRINGS OF ACTION; AND THE ARTICLE ON UTILITARIANISM (Oxford University Press 1983) (1843).

234. Professor Fisher presents an example of what such a society might consist of but concedes that the possibilities are endless. See Fisher, Theories, supra note 175, at 192-93 (citing William W. Fisher, III, Property and Contract on the Internet, 73 CHI.-KENT L. REV. 1203 (1998)).
such a society have been the subject of debates among political philosophers for centuries. Even if philosophers could agree on the definition of a hypothetical utopia, it would be difficult to apply that vision to the specific doctrinal issues associated with intellectual property law.

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. Production includes an artist’s or author’s motivation to create new works, and social planning theorists reject a use if it significantly impacts that motivation. Consumption includes any effects on a copyright holder’s potential market, and therefore, social planning theorists also reject a use if it significantly interferes with the copyright holder expanding current markets or accessing new ones. The ultimate goal of social planning theory is to stimulate progress in the sciences and arts, so its supporters reject uses that discourage future artists and authors from creating new works. On the other hand, they support any use that extends creative works to people who would otherwise not have access to

235. Fisher, Theories, supra note 175, at 193 (citing ARISTOTLE, NICOMACHEAN ETHICS bk. 5, ch. 2; BRUCE ACKERMAN, SOCIAL JUSTICE IN THE LIBERAL STATE (Yale University Press 1980); JOHN RAWLS, A THEORY OF JUSTICE (Harvard University Press 1971); MICHAEL SANDEL, LIBERALISM AND THE LIMITS OF JUSTICE (Cambridge University Press 1982); CHARLES FRIED, DISTRIBUTIVE JUSTICE, 1 SOC. PHIL. & POL’Y 45 (1983)).

236. For example, consider the theory’s application to parodies. See Fisher, Theories, supra note 175, at 194. Professor Fisher stated:

[On the one hand,] [p]arody 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.

Id.

237. See Lacey, supra note 109, at 1565.

238. See O’Rourke, Evaluating Mistakes, supra note 40, at 170.

239. See Lacey, supra note 109, at 1565-66.

240. 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.”

Id. (citing U.S. CONST. art. I, § 8; FRANK I. MICHELMAN, PROPERTY, UTILITY AND FAIRNESS: COMMENTS ON THE ETHICAL FOUNDATIONS OF “JUST COMPENSATION” LAW, 80 HARV. L. REV. 1165, 1206-08 (1967)).
them.\footnote{See Fisher, Theories, supra note 175, at 192.} Social planning theorists also place importance on how fair use contributes to common community goals,\footnote{See Lacey, supra note 109, at 1585-95.} that is, the more the work promotes a community’s shared values, the greater the need for fair use to make it accessible to the public.\footnote{See id. at 1586-87. Linda Lacey stated: 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. Id.} 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.\footnote{See id. at 1585-95.} 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.\footnote{See id. at 1586-87. Linda Lacey stated: \[P\]olitical 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. Id.} According to social planning theory, a commercial use that expands an artist’s market is also likely to benefit the public. With a non-commercial use, when copying meets a community’s need for education and awareness, the unlicensed user is providing a public service.\footnote{See id. at 1593.} Social planning theorists believe that in both cases, the community benefit outweighs the need to preserve the original artist’s exclusive rights.\footnote{See id. at 1588-90. Linda Lacey stated: Id.}
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, 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.

* * *

The search for theoretical underpinnings to address the issue of fair use provides much knowledge but little guidance. While proponents of different theoretical approaches point to copyright scenarios congruent with their particular ideas, the reality is that each theory has its own “[a]mbiguities, internal inconsistencies, and... lack of [] empirical information,” 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 concepts, 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 United States 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. Although the subsequent evolution of fair use law makes it doubtful any court today would rule the same way, there remains a considerable amount of inconsistency in how courts weigh the potential benefits to a copyright holder’s market from an unlicensed use. In this Part, I will identify patterns in the rulings of various courts that have considered market benefit, beginning with cases in which courts did not find fair use despite actual or potential market benefit and ending with cases in which courts did.

248. Fisher, Theories, supra note 175, at 177 (“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.”).


250. Of the courts that have mentioned market benefit, some have considered it more fully than others. In certain cases, courts refuse to consider evidence of market
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. One rationale is that the loss of licensing royalties from an unlicensed use generally outweighs the potential sales revenues from an expanded 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 an unlicensed use unfair because the unauthorized user acted in bad faith.

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

Courts have repeatedly found unlicensed uses unfair where they have perceived that the copyright holder lost (real or theoretical) opportunities to receive financial benefits from licensing the copyrighted work to an unlicensed user. In *DC Comics Inc. v. Reel Fantasy, Inc.*, 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.\(^{251}\) DC Comics sued for copyright infringement, and the United States 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.\(^{252}\) The court stated that by using “The Batcave” name and *Batman* symbols without permission, Reel Fantasy


\(^{252}\) *DC Comics Inc. v. Reel Fantasy, Inc.*, 696 F.2d 24, 25 (2d Cir. 1982). Reel Fantasy also used images of *Batman* and *Green Arrow* (another copyrighted character of DC Comics) in its store displays. *Id.*

\(^{252}\) *Id.* at 25-26.
robbed DC Comics of the opportunity to license its copyrights to the comic book store in order to earn royalties. According to the appellate court, even though Reel Fantasy had advertised the plaintiff's *Batman* comic books—which might have increased sales of the plaintiff's products—the potential market for licensing was actually decreased, with the copyright holder being in "the best position to balance the prospect of increased sales against revenue from a license." Ironically, the court never analyzed whether a market for a license to Reel Fantasy existed.

The case of *Iowa State University Research Foundation, Inc. v. American Broadcasting Companies, Inc.* 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 the possibility that the unlicensed copying enhanced the copyright holder's market—that the American Broadcasting Companies' (ABC's) use of the plaintiff's copyrighted videotape of an Olympic wrestler in ABC's Olympic Games broadcasts was unfair because it violated the plaintiff's right to license the work to ABC. The court also noted in the damages phase of the trial that royalties would have exceeded any possible benefit to the plaintiff’s market. The United States Court of Appeals for the Second Circuit agreed with the district court's denial of the defendants' fair use claim, adding that the plaintiff's lost licensing revenues were especially critical because the defendants had a monopoly on the Olympic Games coverage.

One court took the licensing variable a step further and defined its role as protecting the copyright holder's choice to not license its works. In *Storm Impact, Inc. v. Software of the Month Club*, the defendant (a shareware distribution company) provided truncated versions of the

253. Id. at 28.
254. Id. For an example of a court making a similar finding, see Ringgold v. Black Entertainment Television, Inc., 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. Id. at 72-73. The court, in an opinion that referenced *DC Comics*, found, "[e]ven if the unauthorized use of plaintiff's work in the televised program might increase poster sales, that would not preclude her entitlement to a licensing fee." Id. at 81 n.16 (citing *DC Comics*, 696 F.2d at 28).
255. See *DC Comics*, 696 F.2d at 28.
259. *Iowa State*, 621 F.2d at 62.
plaintiff's 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 truncated versions of the plaintiff's shareware, it increased the demand for the plaintiff's complete software products. 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 the complete versions of the software. The court accepted the plaintiff's contentions while shortchanging the defendant's evidence of possible market enhancement.

In dismissing the defendant's argument, the U.S. District Court for the Northern District of Illinois quoted the U.S. Supreme Court decision in Harper & Row, Publishers, Inc. v. Nation Enterprises in which the Court stated that "[a]ny 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]." 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. Such analysis is not the same as that used by the courts in DC Comics Inc. and Iowa State. The courts in those cases found that the royalties they believed the copyright holders would have actually earned by licensing their copyrights offset any benefit to the copyright holders' markets.

2. *Preserving the Copyright Holder's Right to License Copyright 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 potential

261. *Id.* at 785.
262. *Id.* at 788.
263. *Id.* at 786, 790.
264. *See id.* at 789-90.
266. *See DC Comics*, 696 F.2d at 28; *Iowa State*, 621 F.2d at 62.
users.\textsuperscript{267} For instance, in \textit{Rubin v. Brooks/Cole Publishing Co.}, a publisher included the plaintiff’s copyrighted “Love Scale” (a self-test for students) in its \textit{Social Psychology} textbook.\textsuperscript{268} The U.S. District Court for the District of Massachusetts 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” in light of the fact that Rubin had gratuitously licensed his self-test to other publishers, 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.\textsuperscript{269} 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 printing additional textbooks that included the “Love Scale.”\textsuperscript{270} 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.\textsuperscript{271}

Several years later, the United States Court of Appeals for the Second Circuit reinforced the copyright holder’s exclusive right to license works to others. In \textit{Castle Rock Entertainment, Inc. v. Carol Publishing 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 \textit{Seinfeld} television program.\textsuperscript{272} 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 book may have increased market demand for the television program.\textsuperscript{273} The court ruled that the plaintiff had a monopoly over the right to license or publish derivative works, even

\textsuperscript{267} For a contemporary example of a court accepting this rationale, see \textit{UMG Recordings, Inc. v. MP3.Com, Inc.}, 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. UMG Recordings, Inc. v. MP3.Com, Inc., 92 F. Supp. 2d 349, 350, 352 (S.D.N.Y. 2000). 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 therefore denied the defendant’s fair use claim. \textit{Id.} at 352.


\textsuperscript{269} \textit{Id.} at 921.

\textsuperscript{270} \textit{Id.} at 921, 925. The court weighed the possibility of such 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 licensing. \textit{Id.} at 922.

\textsuperscript{271} See \textit{id.} at 922.

\textsuperscript{272} Castle Rock Entm’t, Inc. v. Carol Publ’g Group, Inc., 150 F.3d 132, 135 (2d Cir. 1998).

\textsuperscript{273} \textit{Id.} at 144-46.
though it had no intention of doing so.\footnote{Id. at 145-46; cf. Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 111 (2d Cir. 1998) (denying fair use claim where unlicensed user entered derivative markets that the copyright holder had an undisputed ability and willingness to pursue); Higgins v. Detroit Educ. Television Found., 4 F. Supp. 2d 701, 708-10 (E.D. Mich. 1998) (stating, "[w]here, 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.'" (quoting Princeton Univ. Press v. Mich. Document Servs., 99 F.3d 1381, 1387 (6th Cir. 1996))).}

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 International, Ltd.}, 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.\footnote{Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd., 996 F.2d 1366, 1370-71 (2d Cir. 1993).} In denying the defendants' fair use claim, the United States 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.\footnote{Id. at 1377.}

Similarly, in \textit{Paramount Pictures Corp. v. Carol Publishing Group, Inc.}, the U.S. District Court for the Southern District of New York 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.\footnote{Paramount Pictures Corp. v. Carol Publ'g Group, Inc., 11 F. Supp. 2d 329, 336 (S.D.N.Y. 1998).} Both in \textit{Twin Peaks} and \textit{Paramount Pictures}, the courts 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.

\section*{3. Protecting Copyright Holders Against Unauthorized Users' Bad-Faith Motives}

The current J.K. Rowling suit against the \textit{New York Daily News} likely falls within this subcategory of fair use cases. While the author of the \textit{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. That, 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 an 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 use benefited the copyright holder’s market. Courts usually consider the unlicensed user’s motives in connection with the first fair use factor. For instance, in *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. The defendants moved to dismiss the complaint on the ground that their use was fair, but the court

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278. See *Daily News Sued Over Harry Potter Scoop*, supra note 1, at C7.


281. 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.

282. In *Rogers v. Koons*, the court described the first factor as:

[W]hether 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.

*Rogers*, 960 F.2d at 309 (citing MCA, Inc. v. Wilson, 677 F.2d 180, 182 (2d Cir. 1981); 3 NIMMER ON COPYRIGHT, supra note 96, § 13.05[A][1] (1991)).

denied the motion and found that the defendants had likely acted in bad faith.\textsuperscript{284} The court noted that the defendants "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{285} The court concluded, "it requires no effort to infer that, having been rebuffed by plaintiffs for such a commercial, defendants Miller and Backer proceeded to copy them. Thefinders of . . . fact could equate such conduct with bad faith and evasive motive on defendants’ part."\textsuperscript{286}

The court did not find it necessary to weigh all four fair use factors once it concluded that the defendants’ use was not a parody.\textsuperscript{287} 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 overlooked in focusing on the motives of the alleged infringer.

\textbf{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 demonstrated their acceptance of uses that (a) are transformative or (b) fulfill a public purpose.

\textit{1. Transformative Use Cases}

Courts have regularly cited evidence of possible market benefit\textsuperscript{288} in finding fair use where the unlicensed uses are transformative.\textsuperscript{289} Even if

\begin{thebibliography}{99}
\bibitem{284} Id. at 832-33.
\bibitem{285} Id.
\bibitem{286} Id. at 833.
\bibitem{287} Id. at 832.
\bibitem{288} 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. \textit{See}, e.g., \textit{SunTrust Bank v. Houghton Mifflin Co.}, 268 F.3d 1257, 1274-75 (11th Cir. 2001) (holding that a parody of \textit{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 \textit{SunTrust} Bank did not say so explicitly, transformative uses often, by their very nature, increase demand for original works. \textit{See}, e.g., \textit{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).
\bibitem{289} A transformative use is a use generally recognized as adding to the original,
those uses are part of commercial works, courts have looked favorably upon them because they enhance the quality and quantity of works available to the public instead of merely superseding the original works.\footnote{290} At the same time, such uses do not undermine the economic incentives of artists and creators because copyright holders receive an economic benefit that they would not have received absent the unlicensed use.\footnote{291} 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 Productions, Inc.} 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.\footnote{292} The U.S. District Court for the Eastern District of New York found that the plaintiff was unlikely to succeed on the merits of her claim because the defendants could successfully avail themselves of a fair use defense.\footnote{293} The court specifically emphasized the defendants’ transformative use of the film clips in making a documentary to educate the public.\footnote{294} Furthermore, in reference to the fourth factor, the court

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copyrighted work. \textit{See Campbell}, 510 U.S. at 579 (framing question of transformative use as “whether the new work merely ‘supersede[s] the objects’ of the original creation or instead adds something new” (quoting \textit{Folsom v. Marsh}, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841) (No. 4901))); \textit{Sony Corp. of Am. v. Universal City Studios, Inc.}, 464 U.S. 417, 478 (Blackmun, J., dissenting) (stating 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”); \textit{Nunez v. Caribbean Int’l News Corp.}, 235 F.3d 18, 21, 23 (1st Cir. 2000) (holding reproduction of controversial, copyrighted modeling pictures in a newspaper is fair use because “[i]t 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”); \textit{Matthew C. Staples, Note, Kelly v. Arriba Soft Corp.}, 18 \textit{Berkeley Tech. L.J.} 69, 79 (2003). Making an exact copy of an original work, even if it is for educational or research purposes, is generally not recognized as a transformative use. \textit{See, e.g.}, \textit{Am. Geophysical Union v. Texaco, Inc.}, 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 37, 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”).

\footnote{290} \textit{See, e.g., supra} notes 86-92 and accompanying text.

\footnote{291} \textit{id}.

\footnote{292} \textit{Hofheinz v. AMC Prods., Inc.}, 147 F. Supp. 2d 127, 136-37 (E.D.N.Y. 2001).

\footnote{293} \textit{id} at 136-37.

\footnote{294} \textit{id} at 137-38. The court stated:

[D]efendants’ documentary will likely be found to be “transformative” on the trial of this matter; it does not merely purport to supersede the original works at
commented on the likelihood that the documentary would increase the market demand for the plaintiff’s copyrighted works.\textsuperscript{295} This case is facially consistent with the balancing test outlined in \textit{Campbell} because the court analyzed all four fair use factors, even though it rested its decision on the fourth factor after determining that defendants’ use was transformative in that defendants added to, rather than merely copied, the copyrighted movies.\textsuperscript{296}

In \textit{Nunez v. Caribbean International News Corp.}, the plaintiff-photographer sued a newspaper for copyright infringement after the newspaper printed copyrighted photographs of “Miss Puerto Rico” alongside articles about the public controversy surrounding the beauty pageant winner.\textsuperscript{297} The U.S. District Court for the District of Puerto Rico entered judgment in favor of the newspaper on its fair use claim, and the United States Court of Appeals for the First Circuit affirmed, ruling that the transformative use of the photographs—as part of news articles to inform the public\textsuperscript{298}—offset the fact that the pictures were included in a

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\textit{Id.} (citing \textit{Campbell}, 510 U.S. at 580-81, 586).
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\textsuperscript{295} \textit{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.”).

\textsuperscript{296} In two similar cases, courts relied on the same considerations to find fair use. First, in \textit{Video-Cinema Films, Inc. v. Cable News Network, Inc.}, the defendant aired footage of the plaintiff’s copyrighted film (\textit{The Story of G.I. Joe}) during news stories about the death of actor Robert Mitchum. \textit{Video-Cinema Films, Inc. v. Cable News Network, Inc.}, Nos. 98-Civ.-7128, 98-Civ.-7129, 98-Civ.-7130, 2001 U.S. Dist. LEXIS 15937, at *1 (S.D.N.Y. Sept. 28, 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 it. \textit{Id.} at *30 n.20. The court rejected the claim that plaintiff was denied an opportunity to license uses of the film to the defendant or to other users. \textit{Id.} at *30-31.

Second, in \textit{Wright v. Warner Books, Inc.}, the defendant wrote a biography of author Richard Wright that included excerpts of Wright’s published and unpublished works. \textit{Wright v. Warner Books, Inc.}, 953 F.2d 731, 734 (2d Cir. 1991). The court found the defendant’s use of Wright’s works fair. \textit{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 expanding their market. \textit{Id.} at 739.

\textsuperscript{297} \textit{Nunez}, 235 F.3d at 21.

\textsuperscript{298} \textit{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 \textit{Campbell}, 510 U.S. at 579)).
commercial work.\textsuperscript{299} In its reference to the fourth factor, the court stated that the "only discernible effect [of the unlicensed use] was to increase demand" for the photographer's work.\textsuperscript{300} The court also noted that the relevant market was not the photographer's market for his photographs generally but rather the market for the reproduced photographs.\textsuperscript{301} In addition to the possible benefit to the copyright holder's market, the court found that since there was no potential market for licensing the reproduced photographs to \textit{any} newspaper, the photographer could not make the claim that he had lost royalties.\textsuperscript{302}

2. \textit{Per Se} Cases

A number of courts have made \textit{per se} findings of fair use in cases in which an unlicensed use likely enhanced the copyright holder's potential market, regardless of the alleged infringer's purpose in using the copyrighted work.\textsuperscript{303} The \textit{per se} precedent exists despite the statutory mandate to weigh all four factors in fair use claims\textsuperscript{304} and despite warnings in \textit{Campbell} that lower courts should not rely exclusively on the fourth

\textsuperscript{299} \textit{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.").

\textsuperscript{300} \textit{Id.} at 25.

\textsuperscript{301} \textit{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.").

\textsuperscript{302} \textit{Id.} at 25.

\textsuperscript{303} As early as 1965, in \textit{Mura v. Columbia Broadcasting System, Inc.}, the court focused exclusively on the fourth fair use factor in noting that the defendants would have prevailed on their fair use claim had the plaintiff established a prima facie case of infringement. \textit{Mura v. Columbia Broad. Sys., Inc.}, 245 F. Supp. 587, 590 (S.D.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." \textit{Id.} at 589. But the court went on to consider the fair use question anyway and found that had infringement occurred, the defendants' use would have been fair because, if anything, the defendants increased sales of the plaintiff's puppets. \textit{Id.} at 590. The court made its finding without considering other factors. \textit{Id.}

\textsuperscript{304} \textit{See} 17 U.S.C. § 107 (2000) (stating, "[i]n 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 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."); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 449-50 nn.31-32 (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 that "while not conclusive with respect to fair use, [the fourth factor] can and should be weighed along with other factors in fair use decisions.").
factor when making fair use determinations.\textsuperscript{305}

\textit{a. Public Use}\textsuperscript{306}

In a post-\textit{Campbell} decision, the United States 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.\textsuperscript{307} The court reiterated that § 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."\textsuperscript{308} 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."\textsuperscript{309} Resting its decision on the fourth factor, the court made only a fleeting reference to the first three factors.\textsuperscript{310} 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."\textsuperscript{311} 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.\textsuperscript{312}


\textsuperscript{306} A public use is one that benefits the public, such as uses for education, public adjudication, and criminal justice, and includes other uses promoted by Congress. See infra Part V. Transformative uses, by their very nature, are public uses because they add to the array of creative works accessible to the public and are in large part protected by Congress in 17 U.S.C. § 107 (2000). The author establishes a dichotomy between public and non-public uses, as he believes that the dichotomy between commercial and non-commercial uses is overemphasized. Some courts agree. See, e.g., Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 109 (2d Cir. 1998). The court in Infinity Broad. Corp. v. Kirkwood stated:

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 \textit{Campbell}, to give commerciality a "presumptive force against a finding of fairness," would render the preamble a nullity.

Id. (quoting Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 584 (1994); citing Castle Rock Entm't, Inc. v. Carol Publ'g Group, Inc., 150 F.3d 132, 141-42 (2d Cir. 1998); Am. Geophysical Union v. Texaco, Inc., 60 F.3d 913, 921 (2d Cir. 1994)).

\textsuperscript{307} See Allen v. Academic Games League of Am., Inc., 89 F.3d 614, 617 (9th Cir. 1996).

\textsuperscript{308} Id.

\textsuperscript{309} Id.

\textsuperscript{310} Id.

\textsuperscript{311} Id.

\textsuperscript{312} See id.
b. Private Use

The court’s decision in Haberman v. Hustler Magazine, Inc. illustrates the per se approach in a case where the unlicensed use was for a private purpose. The copyright holder of two surrealistic (fine art) photographs initiated a lawsuit against 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 economic interests. The court held that the plaintiff’s case “fatally falter[ed]” 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. Perhaps more significantly, the court emphasized that postcard sales of the two copyrighted works increased after their publication in Hustler Magazine, evidence that sealed the defendant’s fair use defense.

The court recognized that the defendant sold Hustler Magazine for profit, which normally would have militated against fair use. 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. That distinction is a fiction because the defendant published 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 photographs deserved heightened protection because they were “creative, imaginative, and original” and “represent[ed] a substantial investment of

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313. A private use is a use that is non-transformative and does not promote a governmental or other public purpose, including many religious and some commercial uses. See infra Part V.
315. Haberman, 626 F. Supp. at 204-05.
316. See id. at 210-11.
317. Id. at 212.
318. Id.
319. Id. at 210.
320. Id. at 211. Further, entertainment is not one of the permissible purposes for fair use listed in the Copyright Act. 17 U.S.C. § 107 (2000). While that list is not all-inclusive, the court offers no justification for why copying intended to entertain, absent anything else, is not exploitative.
time and labor in anticipation of a financial return . . . "

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. The court appears to have made its decision purely on the basis of the neutral or positive market impact of the unlicensed use, without giving credence to other factors that might have weighed against a finding of fair use.  

3. Courts Using a Balancing Test

In the landmark case of *Campbell v. Acuff-Rose Music, Inc.*, 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. In stating that the impact on 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." The majority stated that "[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 United States 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

321. Haberman, 626 F. Supp. at 211.
322. See id. at 211-12.
323. See id. at 212. This is similar to the reasoning employed in *Amsinck v. Columbia Pictures Industries, Inc.*, where the court, in dicta, rejected a balancing approach to fair use and advocated a per se rule in cases where there was an absence of harm from the unlicensed use and possible benefit to the copyright holder's market. Amsinck v. Columbia Pictures Indus., Inc., 862 F. Supp. 1044, 1049 (S.D.N.Y. 1994).
324. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 591 n.21 (1994). Courts in other cases have made similar analyses. See, e.g., Lish v. Harper's Magazine 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, 736-39 (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).
325. *Campbell*, 510 U.S. at 584 (citing Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 455 n.40 (1984)).
326. Id. at 591 n.21.
manuscript for use in a child custody case violated the plaintiff’s copyright on 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 the 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, “[i]ronically, 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 Use

In Jackson v. Warner Brothers 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 exploitive” and sued for copyright infringement. The U.S. District Court for the Eastern District of Michigan ruled the defendant’s use fair after balancing all four fair use factors and finding that only the second factor favored the plaintiff. The court quoted Campbell in response to the defendant’s evidence that its use increased sales 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

328. Id. at 390.
329. Id. at 397.
330. Id. at 396.
331. Id.
332. Id. at 396-97 (alteration in original) (quoting the district court).
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 591 (quoting Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 591 n.21 (1994)).
337. Id.
Campbell was distinguishable. According to the district court, in Campbell there was evidence of possible 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.

Similarly, in Hustler Magazine, Inc. v. Moral Majority, Inc., the court balanced the fair use factors to conclude that despite the defendants’ purely private use of an advertisement parody for fundraising purposes, the unauthorized use was fair. 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. 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.”

The fourth factor also favored the defendants, with the court noting, “[i]n fact Hustler republished the same parody in its March 1984 issue.

338. Id.
339. Id.
340. Id. The court relied on four criteria as set out by the court in Amsinck v. Columbia Pictures Industries, Inc., 862 F. Supp. 1044, 1048-49 (S.D.N.Y. 1994). In that case, the court considered:

1) [W]hether 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.

Jackson, 993 F. Supp. at 591 (citing Amsinck, 862 F. Supp. at 1048-49). In Amsinck, the plaintiff’s work, a mobile, appeared in the defendant’s film for a total of one minute and thirty-six seconds. Amsinck, 862 F. Supp. at 1045-46. The court described the fourth factor as:

[W]hether 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.

342. Id. at 1529.
343. Id. at 1530.
344. Id. at 1531.
345. Id. at 1535.
indicating that if anything plaintiff thought the market for the parody had increased."^{346}

The attempt to categorize the cases discussed in this Part reveals some common trends, but perhaps does more to reveal inconsistencies in how courts approach the fair use doctrine. From these commonalities and differences a framework emerges for evaluating fair use in cases in which an unlicensed use possibly benefits a 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 (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.^{347} 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 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’s interest in using and accessing creative works.

A. Eminent Domain and Fair Use

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 intellectual property rights.^{348} As intellectual property

346. Id. at 1540.

347. See, e.g., Ku, supra note 123, 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.'"


348. See William W. Fisher, III, The Growth of Intellectual Property: A History of the Ownership of Ideas in the United States, at *10-12 (1999), http://cyber.law.harvard.edu/people/tfisher/iphistory.pdf [hereinafter Fisher, The Growth of Intellectual Property]. Part of this can be attributed to the fact that intellectual property rights have taken on more of the characteristics of real 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. Professor Fisher continues:

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
rights “have taken on more of the characteristics of real property rights,” a real property doctrine, the law of eminent domain, offers a useful paradigm for evaluating the applicability of fair use to cases in which an unlicensed use does not harm (and potentially benefits) a copyright holder’s market. With its origins in the “ takings clause” of the U.S. Constitution, the law of eminent domain enables the government to appropriate private property for public use. While courts and commentators have disagreed for centuries over the precise definition of the term, a public use has widespread benefit to the public. In determining whether a “ taking” benefits the public, courts give deference to legislative and administrative findings. The government can delegate its eminent domain power to a private entity so long as the exercise of that power by the private entity is for a public use.

The “ takings clause” of the U.S. Constitution states that “ nor should private property be taken for public use, without just compensation.” Just as disagreement ensues over the definition of “public use,” so it does over the question of what constitutes “just compensation.” No matter how courts and commentators answer that question, the principle that the government must compensate private property owners upon exercising its eminent domain power is unquestioned.

B. The Proposed Framework

Despite the most recent call by the U.S. Supreme Court in Campbell to balance all four factors in fair use cases, courts continue to emphasize
the fourth factor most heavily. In cases where an unlicensed use benefits, or has no effect on, the copyright holder's potential market, and the unlicensed use is public, 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 and other public uses as fair. By contrast, there is no justification for courts protecting a purely private use of a copyrighted work, even in the absence of market harm from the unlicensed use.

This framework arises out of the two purposes 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 quantity and quality of creative works available to the public. 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 their incentives. Additionally, where the unlicensed use is transformative or public, the user has added to the quality and quantity of original works available to the public in fulfilling some public purpose. In an intellectual property 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 expectation 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

360. 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 Publishers, Inc. v. Nation Enters., 471 U.S. 539, 566 (1985))); Sony Computer Entm’t Am. Inc. v. Bleem, LLC, 214 F.3d 1022, 1029 (9th Cir. 2000) (“In addressing this fourth and most important factor, the Supreme Court considered . . . .”); Sundeman v. Seajay Soc’y, Inc., 142 F.3d 194, 206-07 (4th Cir. 1998) (“This fourth factor ‘is undoubtedly the single most important element of fair use.’” (quoting Harper & Row, 471 U.S. at 566)); Princeton Univ. Press v. Mich. Document Servs., 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., 271 F. Supp. 2d 737, 749 (D. Md. 2003) (“This factor is ‘undoubtedly the single most important element of fair use.’” (quoting Harper & Row, 471 U.S. at 566)).

361. One of the primary objections to this framework is the speculative nature of measuring market benefit or finding the absence of 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.
holder's market are found to be fair.\textsuperscript{362}

Analogizing fair use to the law of eminent domain is appropriate here. Just as a government occasionally delegates its eminent domain power to private entities that then exercise that power for public uses, Congress has, in essence, delegated through the Copyright Act a private "taking" power to unlicensed users to make public uses of copyrighted works. Where such a use does not harm the copyright holder's market, the copyright holder's economic expectancy is protected, and there is no need for the user to pay the copyright holder "just compensation" or damages. When the use does harm the copyright holder's market, the fair use inquiry becomes more difficult, and arguably the user needs to "compensate" the copyright holder by paying damages.

In cases where there is a net benefit (or an absence of any harm) to the copyright holder's market from a 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.\textsuperscript{363} 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. 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. It is in these cases that courts can and should protect the rights of the property holder, even if those rights are personality and moral rights rather than economic rights.\textsuperscript{364}

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 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{365} in the copyright, so courts should not factor.

\textsuperscript{362} See generally, 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 Prods., Inc., 147 F. Supp. 2d 127 (E.D.N.Y. 2001).

\textsuperscript{363} See, e.g., DC Comics Inc. v. Reel Fantasy, Inc., 696 F.2d 24, 28 (2d Cir. 1982).

\textsuperscript{364} An example of this is J.K. Rowling's suit against the New York Daily News. See Daily News Sued Over Harry Potter Scoop, supra note 1, at C7. Even if the pre-release publication of excerpts of Rowling's book increased the market for the book, we should conclude that the New York Daily News' use of excerpts from Harry Potter and the Order of the Phoenix did not constitute fair use because the use was private and non-transformative.

\textsuperscript{365} A copyright holder's expectation in a copyright is the economic value of the
unrealized royalties into their analysis of the copyright holder’s market. 366 To do so does nothing further to protect the incentives of artists and authors to create new works.

1. 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. 367 This approach has a pitfall in that 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.

Several cases reflect this pitfall 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. 368 But the court failed to define the factual issues for the lower court to consider

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366. An “expectation interest” is a traditional contract law concept used in calculating damages for breach of contract. See Restatement (Second) of Contracts § 344(a) (1981); Steven J. Burton & Eric G. Anderson, *The World of a Contract*, 75 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.”); Robert Cooter & Melvin Aron Eisenberg, *Damages for Breach of Contract*, 73 Cal. L. Rev. 1432, 1434 (1985). Robert Cooter and Melvin Aron Eisenberg stated:

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.

Cooter & Eisenberg, *supra*, at 1434.

367. See, e.g., *supra* Parts IV.A-B.

368. *DC Comics Inc. v. Reel Fantasy, Inc.*, 696 F.2d 24, 28 (2d Cir. 1982).
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 royalties into its market analysis upon remand.

In *Iowa State University Research Foundation, Inc. v. American Broadcasting Companies, Inc.*, the court looked more closely at the plaintiff's ability and willingness to license its videotape of an Olympic wrestler to the defendants and made an apparent assumption (which was never proven) that the plaintiff could have and would have licensed the copyrighted videotape to the defendants 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 defendants had a monopoly on the Olympic Games coverage).

In *Storm Impact, Inc. v. Software of the Month Club*, the court found defendant's 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. Such protection seems unrelated to protecting artists' and authors' incentives to create because a copyright holder does not expect to realize licensing royalties

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370. *Id.*
372. *See id.*
373. *See id. at 790-91. But see Am. Geophysical Union v. Texaco, Inc.,* 60 F.3d 913, 929-30 (2d Cir. 1994). The court in *American Geophysical Union v. Texaco, Inc.* stated:

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."

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 Rubin v. Brooks/Cole Publishing Co., 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 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," the court nevertheless ruled in favor of the plaintiff. The decision overlooked two critical facts that made the existence of such a market for licensing unlikely: (a) other textbook authors had used the same copyrighted work 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 Entertainment, Inc. v. Carol Publishing 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 that 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

375. Id. at 922.
376. 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 . . . ").
377. Id. at 925.
378. 13 F. Supp. 2d at 790-91.
380. Id.
transformation was not enough to support a finding of fair use.\textsuperscript{381} However, in light of the fact that the only possible effect of the unlicensed use on the plaintiff's market was beneficial, even a slight degree of transformation should have been enough for the court to find the use fair.

Likewise, in \textit{Twin Peaks Productions, Inc. v. Publications International, Ltd.}, the copyright holder had once shown an interest in exploiting derivative markets, yet admitted that its interest in those markets decreased as the popularity of \textit{Twin Peaks} diminished.\textsuperscript{382} The court gave greater weight to the plaintiff’s passive interests in market development than to the economic benefit to the plaintiff’s market from the defendant’s unlicensed use, and did not consider whether a market for licensing the original work for derivative uses existed.\textsuperscript{383} The court ignored the economic realities of the copyright holder’s market, as is characteristic of courts in fair use cases.

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 royalties be considered in measuring the effects of the unlicensed use on the copyright holder’s market.

2. \textit{Protecting Public Uses}

In cases of market benefit, courts should find only public uses of copyrighted works fair. While this approach rejects the importance that some courts place on the commercial/non-commercial dichotomy,\textsuperscript{384} that dichotomy is not very effective in helping to draw the line between fair and unfair uses.\textsuperscript{385} 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.\textsuperscript{386} Such inquiry is often a fiction when the unlicensed use is in the form of a commercial work because almost any commercial work is, in part, created for commercial gain even if there are other purposes for the work as well.\textsuperscript{387} The murkiness of the test gives courts great latitude in

\begin{footnotesize}
\begin{enumerate}
\item Id. at 143.
\item \textit{Twin Peaks Prods., Inc. v. Publ'ns Int'l, Ltd.}, 996 F.2d 1366, 1377 (2d Cir. 1993).
\item Id.
\item \textit{See supra} notes 83-85, 118, 120 and accompanying text.
\item \textit{See supra} note 85 and accompanying text.
\item \textit{See supra} note 83 and accompanying text.
\item \textit{See, e.g.,} Haberman v. Hustler Magazine, Inc., 626 F. Supp. 201, 212-14 (D. Mass. 1986); \textit{see also supra} notes 319-321 and accompanying text.
\end{enumerate}
\end{footnotesize}
categorizing uses as either commercial or non-commercial in fair use cases. The constitutional grant of exclusive rights to creators and the statutory limitations on those rights were both enacted for the benefit of the public. 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, make new works accessible to the public. 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 (promoted by Congress in the Copyright Act) 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 League of America) and the introduction of a copyrighted manuscript

388. 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 (“[T]he 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 . . . .” Sony Corp. of Am., 464 U.S. at 429.

389. An obvious example would be a critical book review printed in a newspaper or magazine.


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.

Id. (citing Universal City Studios, Inc. v. Sony Corp. of Am., 659 F.2d 963, 970 (9th Cir. 1981)).

into evidence at a custody hearing (*Bond v. Blum*)) are both public uses.

Private uses do not fulfill a public purpose. Private uses may include copying for the purpose 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*), uses that, on their face, do not further any public purpose. Yet another possible private use is downloading (essentially copying a copy of) a MP3 music file for one's own personal music collection. This public/private use dichotomy is instructive to the framework discussed above.

C. Aligning the Framework With Current Intellectual Property Theories

The framework just described is analogous to the law of eminent domain, but it is also 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. 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 begins to provide such an understanding.

393. Private uses include those similar to what Justice Blackmun described as "purely personal consumption." *Sony Corp. of Am.*, 464 U.S. at 495 (Blackmun, J., dissenting). Justice Blackmun explained that:

> It 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.
396. While advertising and fundraising can indirectly make an original work accessible to more people, the connection is tenuous at best because in most cases, the public would already have had access to the original work before the advertising or fundraising occurred.
397. *See supra* Part III.A.
The tenets of labor theory are facially inconsistent with the concept of balancing in intellectual property cases. 398 Still, in cases where transformative or other public 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 transformative uses, making new creative works available to the public.

While personality theory emphasizes personal expression and moral rights rather than economic rights, 399 the proposed framework, in part, is reconcilable with personality theory because it disfavors 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 new creative works. 400

Social planning theory, with its view toward developing a more just society, 401 shares with the proposed framework the emphasis 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 shortening the length of the copyright term, curtailing protection of derivative uses, and imposing 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 analogized from the law of eminent domain directly address 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.

CONCLUSION

The tension between private economic rights and the public interest spills over into cases where an unlicensed use is public but harms the copyright holder’s market. Condoning the use as fair harms the economic

398. See supra Part III.B.
399. See supra Part III.C.
400. As the proposed framework does not question the current economic-based copyright system, such reconciliation is beyond the scope of this Article.
401. See supra Part III.D.
rights of the copyright holder, but prohibiting the use deprives the public of the benefit from the use. Maybe the eminent domain analogy is applicable here as well. We can allow the public use, but require the unlicensed user to pay damages or "compensation" to the extent of the harm to the copyright holder's market. Those proponents of compulsory licensing are, in essence, advocating for that result, and it is likely that the trend toward more public and private experimentation with licensing will continue.

But Harry Potter himself cannot read the divination tea leaves and predict the next stages of the fair use debate. It is clear though that we must move from incantations of "Stupefy"—meant to halt forward progress—in favor of "Alohomora"—a charm that opens closed doors.402