

Fair Use for Free, or Permitted-but-Paid?

[Abstract and Introduction only; 280314 draft]

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Abstract

Fair use has gone off the rails, first with the Sony "Betamax" decision, and more recently with the transformation of "transformative use" from a factor fostering new creativity to one favoring new copyright-dependent business models and socially beneficent reiterative uses. We should cease muddling authorship-grounded fair uses with judge-made exceptions whose impetus derives from distinct considerations. Moreover, I suggest that the other exceptions should not always produce free passes. Instead, I propose that many of the current social subsidy fair uses and market failure fair uses be "permitted but paid," and explore how we might implement that proposal.

Introduction

The Supreme Court in *Sony Corp. of America v. Universal City Studios*¹ fended a fork in the fair use road. It was the first case, apart from the Court of Claims decision a decade earlier in *Williams & Wilkins v. U.S.*,² to hold that copying an entire work for the same purpose as the original, i.e., with no additional authorship contribution, could be a fair use, and therefore "free" in both senses of the word. Prior fair use cases concerned new creativity; fair use

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¹ *Sony Corp of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984)

² 487 F.2d 1345 (Ct. Cl. 1973), *aff'd by an equally divided court*, 420 U.S. 376 (1975).

developed in the context of what had been called “productive use”³ to enable new expression, not new distribution.

In prior controversies involving new modes of dissemination, courts wary of copyright owner motives (to enforce copyright in order to put a new entrant out of business) interpreted the scope of exclusive rights narrowly to find no prima facie infringement.⁴ By contrast, copying and retention of an entire work seem clearly to give rise to a prima facie claim of infringement.⁵ Fair use therefore affords the remaining safety valve. The social or technological pressure that courts may sense to permit the use may contribute to the notorious unpredictability of fair use in the U.S.⁶ Of course, any rule that privileges flexibility necessarily produces unpredictability. The greater the former, the greater also the latter.

But there may be an additional reason. Fair use is an on/off switch: all or nothing. Either the challenged use is an infringement of copyright, or it is a fair use, which section 107 declares “is not an infringement of copyright.”⁷ As a result, either the copyright owner can stop the use,⁸ or the user not only is dispensed from obtaining permission, but also owes no compensation for the use. The unpaid nature of fair use introduces pressures that may distort analysis,

³ See *Sony Corp of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 478 (1984) (Blackmun, J., dissenting) (noting that commonly recognized examples of fair use “reflect[] a common theme: each is a *productive* use, resulting in some added benefit to the public beyond that produced by the first author’s work”).

⁴ See, e.g., *White-Smith v. Apollo*, 209 U.S. 1 (1908) (piano roll not a “copy” and therefore no violation of reproduction right); *Fortnightly Corp. v. United Artists Television*, 392 U.S. 390 (1968), *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974)–(cable retransmissions held not public performances)–

⁵ Though one might dispute who makes the copy, e.g., *Cartoon Network LP, LLLP v. CSC Holdings*, 536 F.3d 121 (2d Cir. 2008); *Fox Broadcasting Corp. v. Dish Network L.L.C.*, 723 F.3d 1067 (9th Cir. 2013).

⁶ Laments about the indeterminacy and unpredictability of fair use are legion, see, e.g., Paul Goldstein, *Goldstein on Copyright* §12.1 (2013); Shyamkrishna Balganesh, *Foreseeability and Copyright Incentives*, 122 *Harv. L. Rev.* 1569 (2009); James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 *Yale L. J.* 882 at 889 (2007); David Nimmer, “Fairest of them All” And Other Fairy Tales of Fair Use,” 66 *L. & Contemp. Probs.* 263, 287 (2003); Pierre N. Leval, *Towards a Fair Use Standard*, 103 *Harv. L. Rev.* 1105, 1106 (1990). Contra (fair use in practice is not so unpredictable), e.g., Matthew Sag, *Predicting Fair Use*, 73 *Ohio St. L. J.* 47 (2012); Pamela Samuelson, *Unbundling Fair Uses*, 77 *Fordham L. Rev.* 2537 (2009). Most of the examples, however, concern new creativity rather than new distribution.

⁷ 17 U.S.C. § 107 (2012) (“[T]he fair use of a copyrighted work . . . is not an infringement of copyright.”).

⁸ But see suggestions, in *Campbell v. Acuff-Rose*, 510 U.S. 569, 578 n. 10 (1993) and *Stewart v. Abend*, 863 F.2d 1465, 1479 (9th Cir. 1988), *aff’d*, 495 U.S. 207 (1990), that the appropriate remedy may be monetary, in effect, judicially imposed compulsory licenses; the defendants in those cases, however, produced new works of authorship, they did not merely redistribute the underlying work as is.

particularly of the “transformative” character of the use,⁹ and of potential market harm. Faced with a use, particularly in the context of new technologies, that a court perceives to be socially beneficial, a court may overemphasize its “transformativeness,” and correspondingly underestimate the market consequences, in order to prevent the copyright owner from frustrating the social benefit.¹⁰ Distortions can appear in the other direction as well: A court sensitive to the economic consequences of the unpaid use may feel obliged to downplay the public interest fostered by the use.¹¹ Statutory licenses or privately-negotiated accords within a statutory framework can alleviate the tension, by ensuring that uses which the legislator perceives to be in the public interest proceed free of the copyright owner’s veto, but with compensation.

In contending that some uses previously ruled “fair” should not remain unpaid, I argue that the copyright law should distinguish new distributions from new works, and should confine (free) “fair use” to the latter. (I deliberately avoid the term “transformative,” which I believe has obscured analysis ever since courts began to attach that label to “uses” unmoored from “works.”) Exploitations within the former group would fall into a new category, “Permitted but Paid,” or would be ruled infringing, and therefore left to resolution in the marketplace.

This project does not propose any change to the analysis of fair use cases involving new creativity.¹² Analytical difficulties may abound there as well (for example, how much copying is too much; where lies the line between a fair use parody and an infringing derivative work), but they arise in the strongest normative universe for free use.¹³ The situations I intend to address often come down to assessing whether a new use should be exempted from copyright liability in order to enable a new business model, or to ensure relatively inexpensive dissemination in furtherance of socially worthy goals such as non-profit education. The normative claims underlying redistributive uses are not based on authorship, but rather on “information policy,” a notion which may cover both the

⁹ Recent fair use case law suggests that once the use is deemed “transformative” it becomes presumptively “fair.” See discussion *infra* TAN and note 53. See e.g., *Neri v Monroe* 11-cv-429-slc (W.D. Wisc. Feb. 26, 2014).

¹⁰ E.g., *Perfect 10 Inc. v. Amazon.com, Inc.* 508 F.3d 1146 (9th Cir. 2007); *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003); *Perfect 10 v Yandex*, 2013 WL 1899851 (N.D. Cal. 2013)

¹¹ *Perfect 10 Inc. v. Google, Inc.*, 416 F.Supp.2d 828 (C.D.Cal. 2006), rev’d in part, *Amazon*, 508 F.3d 1146

¹² Although, were I reforming what I’ll call “true” fair use, I would make authorship attribution a factor in assessing - if not a prerequisite to - fair use. Cf. Berne Convention for the protection of literary and artistic works, arts. 10 and 10bis (requiring authorship attribution for quotation and similar exceptions)

¹³ But cf. Hon. J. Alex Kozinski & Christopher Newman, What’s So Fair About Fair Use? The 1999 Donald C. Brace Memorial Lecture, 46 J. COPYRIGHT SOC’Y 512 (1999) (urging that the derivative works right be replaced by compulsory licensing).

interests of readers in receiving works of authorship¹⁴ and of new distributors in purveying them.

“Permitted but Paid” uses may be divided into two classes: Subsidy (socially worthy redistributions); and Market Failure (transactions costs are too high to warrant a licensing solution; or a new mode of dissemination – infant industry – is threatened by copyright owner recalcitrance). Because the latter class turns largely on facts which may evolve (the industry may grow up; licensing mechanisms may evolve), these uses’ classification as “Permitted but Paid” should be subject to a phase-out,¹⁵ for example, a renewable sunset following a five-year review by the Copyright Office.

I recognize that my categories present a variety of line-drawing challenges. First, some would dispute my initial distinction between new authorship (true) fair use, and Subsidy or Market Failure “fair” use.¹⁶ That dispute probably derives from different normative visions of the value of creating new expression as opposed to receiving or reiterating extant expression. As a result, I note the disagreement, but move on. Second, the Subsidy and Market Failure categories may overlap as transaction costs may also characterize some of the kinds of uses I have characterized as subsidies, and social benefit may buttress the appeal of the transactions cost justification for a free use. Nonetheless, I believe the categories are distinct, because there may be social policy reasons to continue to subsidize a use even if the transactions cost problem could be overcome. Finally, there is another boundary issue: Permitted-but-paid must be cabined so that it avoids the slippery slide into two opposite extremes. On the one hand, my proposal should not lead to turning all of copyright law into a “liability rule”; on the other, it should not promote the conclusion that any use that can be paid for should be compensated (if not controlled).

¹⁴ See, e.g., Jessica Litman, Readers’ Copyright, 58 J. COPYRIGHT SOC’Y 325 (2011); Wendy Gordon, Fair Use Markets: On Weighing Potential License Fees, 79 GEO. WASH. L. REV. 1814 (2011).

¹⁵ Thanks to Lital Helman for inspiring this solution. Sunset provisions are not unknown in U.S. Copyright law, see, e.g., See, e.g., 17 U.S.C. §§ 119, 601.

One might envision a third class of “fair use for others”: copying, (possibly intermediate copying) to enable others to engage in creative uses of others’ works. But the claims of for-profit fair use enablers may often fall in the class of market failure permitted-but-paid uses, particularly if the enablers are compiling large databases of copyrighted works in order to facilitate, for example, data mining. As a general proposition, courts have not embraced profit-making “fair use for others.” See, e.g., *Princeton Univ. Press v. Michigan Document Servs.*, 99 F.3d 1381 (6th Cir. 1996); *Basic Books, Inc. v. Kinko’s Graphics Corp.*, 758 F. Supp. 1522, 1547 (rejecting fair use defense for for-profit maker of university coursepacks).

¹⁶ See, e.g., Rebecca Tushnet, Copy This Essay: How Fair Use Doctrine Harms Free Speech and How Copying Serves It, 114 Yale L.J. 535 (2004); Wendy Gordon, Fair Use as Market Failure, 82 Colum. L. Rev. 1600 (1982).

The study proceeds as follows. I first examine the evolution of the two classes of new distribution fair use cases. As examples of social subsidies, I consider the treatment of educational copying from the legislative history of the 1976 Copyright Act through *Cambridge University Press v Becker* (the Georgia State online “reserves” controversy),¹⁷ and then turn to library copying and the *Hathi Trust* case. Market failure cases encompass a range of examples of mass use of copyright works, from private copying to mass digitization (e.g. Google Books), to search engines.

The next part of this study looks to Europe, Australia, New Zealand and Canada. These copyright regimes have typically provided compensation schemes for many of the non-creative uses surveyed here. The United Kingdom, Australia and New Zealand have also instituted or are considering instituting “license it or lose it” systems to promote socially beneficial redistributions of copyrighted works. Some European countries have, moreover, addressed market failure problems through “extended collective licensing” systems that merge features of statutory licenses and private ordering.

Finally, I consider how to implement “Permitted but Paid” in the U.S. As an initial matter, I inquire whether, subsequent to the Supreme Court’s decision in *eBay v. MercExchange*,¹⁸ the tightened conditions for issuing preliminary and permanent injunctions are resulting in a *de facto* Permitted but Paid regime. If the usual panoply of copyright remedies nonetheless largely remains available, can the shadow of injunctive relief stimulate private ordering? Can judges provide the impetus to private ordering by making fair use the backstop to a “license it or lose it” regime? Or is legislation needed to enable private ordering, for example, by lessening antitrust constraints? If legislation is a necessary adjunct to private ordering, who will set the backdrop royalty rates, and how will the rates be determined? I suggest that the Copyright Royalty Board might assume that task of rate-setting if the parties cannot agree, but that it should apply the method of last best offer arbitration (“baseball arbitration”) to arrive at the

¹⁷ Another type of non-creative use of entire works (not analyzed here) is evidentiary use, for example submission of copies of third-party works in court proceedings, see, e.g., *Scott v. WorldStarHipHop, Inc.*, 2011 WL 5082410 (S.D.N.Y. Oct. 25, 2011); *Shell v. City of Radford, Virginia*, 351 F. Supp. 2d 510, 513 (W.D. Va. 2005), or as evidence of prior art in patent applications, see, *AIP v Schwegman, Lundberg & Woessner* (Magistrate, D. Minn 2013).

¹⁸ 547 U.S. 388 (2006)