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Journal

UC Davis Law Review, 54(3)

Author

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Publication Date

2021

UC DAVIS LAW REVIEW

VOL. 54, NO. 3



FEBRUARY 2021

Can Copyright Holders Do Harm to Their Own Works? A Reverse Theory of Fair Use Market Harm

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The fair use doctrine balances the public's right to make infringing uses of copyrighted works against the owner's wish to exclude such uses. The effect an infringing use has upon the potential market for the copyrighted work — otherwise referred to as the market harm factor — is one of the most important factors in making that determination. Yet just how can this hypothetical, potential harm be determined? This is the question that courts and commentators alike have struggled with for as long as fair use has been a defense — and a question that has become even more important as recent fair use doctrine begins to move towards market harm as the single most important factor in the fair use analysis.

Conventional wisdom says that only the infringer may harm the market — that is, reduce, supplant, or even destroy the consuming public's demand — for a plaintiff's copyrighted works. This Article argues, instead, that a

* Copyright © 2021 Xiyin Tang. Assistant Professor, UCLA School of Law. For helpful comments and conversations on earlier drafts, I am indebted to Ian Ayres, Jack Balkin, Barton Beebe, James Boyle, Jeanne Fromer, Paul Goldstein, Brad Greenberg, Mark Lemley, Doug Lichtman, Neil Netanel, Arti Rai, Kal Raustiala, Carol Rose, Jacob Victor, Eugene Volokh, Joseph Wetzel, and the participants of the 2018 Intellectual Property Scholars Conference. Thank you to the editors of the UC Davis Law Review (in particular Arianna Ghavami) for their superb work in preparing this Article for print.

copyright holder's own actions provide the best evidence of plausible market harm. In examples of what I term a copyright owner's "negative" uses of her own work — using copyright to police non-copyright interests, engaging in holdup strategies, failing to update Copyright Office records, failing to mitigate damages, or using a copyright for litigation value rather than copyright value — there can be no market harm because the copyright holder has either made an efficient market transaction impossible or else actively chosen to forgo a copyright market for her work (opting instead for copyright-as-litigation-damages). By turning the lens away from the infringer's conduct and towards the actions of the copyright holder, this Article hopes to open up a broader question about whether we can set fair use doctrine — and copyright policy more broadly — in a way that encourages better, more productive uses of copyrighted works not just by would-be infringers, but rather, by the copyright holder, herself.

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INTRODUCTION

A news monitoring organization, which archives thousands of clips from television news broadcasts for review by journalists, seeks a license from a broadcaster for use of this material. The broadcaster rebuffs the monitoring organization's request and then sues for copyright infringement. Is the monitoring service entitled to a fair use defense, which permits copying for purposes such as comment, reporting, scholarship, and research? In this analysis, would it matter that the broadcaster had refused to license its work — indeed, that it had never licensed its work to a news monitoring organization? What if it was simply because the news monitoring service had made an offer that was too low? But what if, on the other hand, it was because the broadcaster did not want an easy way for third parties to verify what its news anchors said? Do the broadcaster's actions matter at all? Should they matter?

Current fair use analysis holds, overwhelmingly, that the copyright holder's actions seldom matter. In the example I give above, the broadcaster is Fox News, the monitoring organization is TVEyes, and the dispute was one of the most closely watched copyright cases in this last five years. In holding that TVEyes's archiving of television clips into a searchable database was not fair use, the Second Circuit stated: "It is of no moment that TVEyes allegedly approached Fox for a license but was rebuffed: the failure to strike a deal satisfactory to both parties does not give TVEyes the right to copy Fox's copyrighted material without payment."¹ This outcome should not be surprising to copyright scholars

¹ Fox News Network, LLC v. TVEyes, Inc., 883 F.3d 169, 180 (2d Cir. 2018).

and attorneys: for as long as fair use has been a defense, courts and commentators alike have overwhelmingly ignored the copyright holder's own actions, choosing instead to focus on the infringer's actions — including whether the infringer profited off the infringing use, or whether the infringer's use is transformative.²

This Article argues, instead, that any fair use analysis would be remiss not to critically analyze a copyright holder's actions, using how much — or how little — a copyright holder has done to develop the market for their own copyrighted works as the starting point for any analysis of the market harms factor, which is often cited as the most important factor in the fair use analysis.³ My proposal would avoid the “circular” definitions of market harm that have long vexed scholars and courts,⁴ because it looks not to what the would-be infringer can afford to pay⁵ — but rather, whether the copyright holder has acted in ways that restrict, destroy, or otherwise forfeit rights to claim profits from certain uses. In examples of what I term a copyright holder's “negative” actions — including how it has approached licensing negotiations, whether it could have mitigated the infringement but failed to, if it failed to update ownership information, or else used its copyright purely for its litigation value — the copyright owner has much to tell us about how we can define the relevant scope of the market. If the copyright holder has actively disavowed, sabotaged, or driven up transaction costs in a market that the secondary user has entered, then that action should matter: it tells us something about whether we want to allow or disallow the infringing use.

In *Fox News Network*, the inherent difficulties in assessing the market harm factor, and the resulting incoherence in fair use doctrine, became evident when the Second Circuit held that because users were willing to pay for defendant's service, this demonstrated the existence of a market “worth millions of dollars.”⁶ Hence, the court held, the defendant's use was not fair.⁷ This Article argues that rather than focusing on a defendant's actions (including whether the use was for

² See *infra* Part I.

³ See *infra* Parts I.A–C.

⁴ Mark A. Lemley, *Should a Licensing Market Require Licensing?*, 70 LAW & CONTEMP. PROBS. 185, 190 (2007) [hereinafter *Licensing Markets*] (“The ‘lost licensing revenue’ theory [of market harm] is ultimately circular. Whether a use is fair depends on whether the copyright owner loses anything from the use, but under *Texaco*, whether the copyright owner loses anything from the use depends on whether the use is deemed fair; only if it is not a fair use would there be licensing revenue to lose.”).

⁵ See *id.*

⁶ *Fox News Network*, 883 F.3d at 180.

⁷ *Id.*

profit), a plaintiff's own actions should inform the relevant scope of the market for the copyrighted work. Quite simply, there can be no market harm where a plaintiff has engaged in active measures to destroy a normal, competitive market for his work. In each of the examples I explore in this Article — using a copyright to regulate something outside the scope of copyright law (such as a desire to keep information from the public⁸), strategic rent-seeking⁹ and hold up behavior, actions amounting to copyright misuse, laches, or failure to mitigate, failure to update ownership information, using a copyrighted work for litigation value — the copyright holders cannot show that it suffered market harm, either because the work has no market value, or because the owner, through rent-seeking negotiations, has made fair market value impossible to determine.¹⁰

⁸ See generally Jeanne C. Fromer, *Should the Law Care Why Intellectual Property Rights Have Been Asserted?*, 53 HOUS. L. REV. 549 (2015) [hereinafter *Should the Law Care*] (arguing that assertions of intellectual property rights with ill-fitting motivations, such as attempts to protect privacy and reputational interests, should be considered by courts).

⁹ I use the term “rent-seeking” here in the classic law-and-economics sense of a rightsholder engaging in strategic behavior, holding up a transaction and driving up costs to capture a disproportionate share of the rents. See Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1106-07 (1972). Just as Calabresi and Melamed discussed the problem in the real property context, the problem with regard to intellectual property rights has become more acute in the digital age, as many new technologies require the aggregation of multiple rights. “Rent-seeking” behavior also drives up the cost of a transaction above the fair market value of the work. See *infra* Part III.A. For an example of what I mean when I say rent-seeking behavior, see *Pandora Media, Inc. v. Am. Soc’y of Composers, Authors, & Publishers*, 6 F. Supp. 3d 317, 358-59 (S.D.N.Y. 2014) (describing licensing negotiations by large music publishers that failed to reach a fair market value through using significant market power to deprive licensee of any bargaining leverage in negotiations, such that the resulting license deal “fails the parties’ agreed-upon definition of fair market value: that neither party to the negotiation be ‘compelled to act’”).

¹⁰ The concept of fair market value is an especially apt one for purposes of determining the correct access/incentives trade-off that many have described as the heart of what U.S. copyright law attempts to solve for. See Glynn S. Lunney, Jr., *Reexamining Copyright’s Incentives-Access Paradigm*, 49 VAND. L. REV. 483, 498 (1996) (discussing the problem of broadening copyright protections and its associated increase in deadweight loss); Christopher S. Yoo, *Copyright and Product Differentiation*, 79 N.Y.U. L. REV. 212, 231 (2004) [hereinafter *Product Differentiation*] (explaining that the monopoly model of copyright law relies upon policymakers “to calibrate the level of copyright protection so as to permit the greatest possible degree of access while still providing sufficient incentives for the work to be created in the first place”). This is because, in determining the fair market value of a compulsory license, courts must “discern[] a rate that will give composers an economic incentive to keep enriching our lives with music, that avoids compensating composers for contributions made by others

This Article begins by exploring the development of the market harm factor in fair use doctrine. Through an exploration of decades of fair use case law, Part I discusses reasons why courts have never been able to formulate a test in which to gauge when or how a copyright holder has suffered market harm. Part II then proposes that using a copyright holder's own actions to assess market harm best comports with both the underlying principles of the factor as well as fair use doctrine as a whole. Part III discusses examples of what I term "negative" actions by the copyright holder that should weigh against it in a fair use analysis: strategic rent-seeking and hold up behavior; actions amounting to copyright misuse, laches, or failure to mitigate; failure to update ownership information; and use of a copyrighted work for litigation value — and maps each of these examples against the doctrinal principles underlying the market harm factor. I also briefly discuss the import that a copyright owner's nonuse of her work may have under my proposal. The Article concludes by addressing limitations of the case-specific fair use test and proposes additional remedies for the type of mass-scale licensing the digital age demands.

Ultimately, this Article hopes to open up a broader question about whether we can set fair use doctrine — and copyright policy more broadly — in a manner that encourages better, more productive uses of copyrighted works not just by secondary users, or infringers, but rather, by the copyright holder, herself. Whereas the bulk of existing scholarship and doctrine has largely focused on what types of secondary, or infringing, uses we want to allow,¹¹ this Article trains the lens on both an obvious yet unlikely subject: the copyright holder. It argues that the actions of both parties matter in the fair use analysis — and that copyright holders who engage in actions that limit dissemination or decrease market value in their own copyrighted works have forfeited the ability to claim damages from that market. In these

either to the creative work or to the delivery of that work to the public, and that does not create distorting incentives in the marketplace that will improperly affect the choices made by composers, inventors, investors, consumers and other economic players." *MobiTV, Inc. v. Am. Soc'y of Composers, Authors, & Publishers*, 712 F. Supp. 2d 206, 209 (S.D.N.Y. 2010). Further, fair market value in economic terms is, as the name suggests, the result of an efficient market transaction, as it is "the cash equivalent value at which a willing and unrelated buyer would agree to buy and a willing and unrelated seller would agree to sell," and where "neither party is compelled to act, and when both parties have reasonable knowledge of the relevant available information." *Pandora Media*, 6 F. Supp. 3d at 354 (citing ROBERT W. HOLTHAUSEN & MARK E. ZMIJEWSKI, *CORPORATE VALUATION: THEORY, EVIDENCE AND PRACTICE* 4-5 (Cambridge Bus. Publishers 2014)); see also *infra* Part III.A.

¹¹ See, e.g., Pamela Samuelson, *Unbundling Fair Uses*, 77 *FORDHAM L. REV.* 2537 (2009) (breaking out types of permitted secondary uses into policy-based clusters).

instances, any ostensible claim of “market harm” by the copyright owner should give way to valuable secondary, or infringing, uses.

I. FROM MARKET HARM TO TRANSFORMATIVENESS BACK TO MARKET HARM AGAIN: THE EVOLUTION OF THE FOURTH FAIR USE FACTOR

The fourth factor of the four-factor fair use test, which requires courts to consider the effect of a defendant’s use on the potential market for, or value of, a copyrighted work,¹² has at once loomed large as it has been insufficiently analyzed. While it is often said that this market harm factor is one of the most important in any fair use analysis,¹³ in the past decade, courts and commentators have dedicated much more energy to interpreting the first fair use factor,¹⁴ which looks to whether the infringing use is “transformative.”¹⁵ But as this Part will show, the fourth factor continues to define fair use doctrine — from its early primacy in the Supreme Court’s “*Betamax*” decision¹⁶ to recent, renewed emphasis in the high-profile *Fox News Network* litigation.¹⁷ This Part will first trace the early importance that market harm played in fair use decisions, the rise of transformative use, and finally, the recent, renewed emphasis back on the market harm factor —

¹² 17 U.S.C. § 107(4) (2018).

¹³ See generally Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PA. L. REV. 549, 586 (2008) (observing that the fourth factor appears to drive the outcome of the fair use test, with the first factor also appearing highly influential, in a study of fair use opinions dating back to 2005). However, after Beebe’s analysis, and within the Second and Ninth Circuits especially, courts took to calling the first factor, and transformativeness, at “[t]he heart of the fair use inquiry.” *Monge v. Maya Magazines, Inc.*, 688 F.3d 1164, 1185 (9th Cir. 2012); *Blanch v. Koons*, 467 F.3d 244, 251 (2d Cir. 2006); see also 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.05 (Matthew Bender rev. ed. 2020) [hereinafter NIMMER ON COPYRIGHT] (noting the vast expansion of case law relying on transformative use since 2006, ending with what Nimmer believes to be a disastrous holding in *Cariou*).

¹⁴ For example, a search on Westlaw as of the date of this writing revealed over 3,000 law review articles discussing transformativeness, and only half that number discussing the market effects factor, usually in connection with an article on transformativeness.

¹⁵ Judge Pierre Leval fundamentally changed the way we think about the first factor (which looks to the purpose and character of the secondary use) by arguing that whether the secondary use is “transformative,” or, whether it “adds value to the original” through “the creation of new information, new aesthetics, new insights and understandings,” is the most important inquiry. Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990).

¹⁶ *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 497 (1984).

¹⁷ *Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d 169, 180 (2d Cir. 2018).

portending just how important, and analytically neglected, this factor has been in fair use doctrine.

A. *The Early Primacy of Market Effects and the Commercial/Noncommercial Distinction*

The Supreme Court's 1984 decision in *Sony Corp v. Universal City Studios, Inc.*¹⁸ contained the earliest endorsement, by the nation's highest court, of the importance of market harm in the fair use analysis. *Sony* is oft cited, and remains relevant today, because it was one of the earliest copyright decisions to consider a "new" technology: the Betamax, an early video cassette recorder. Confronted with a device that allowed users to pre-record television programming, in turn "time shifting" over the advertisements that provided the bread-and-butter for television copyright holders, the content industry took to the California district court with a copyright infringement claim against the manufacturer of the Betamax, Sony. In holding that the use was fair, the Supreme Court based its holding almost entirely on market harm, which dictates that a court evaluate the "effect of the [secondary] use upon the potential market for or value of the copyrighted work."¹⁹

In evaluating this factor, the Court closely linked its analysis with copyright's incentives paradigm. The purpose of copyright is to create incentives for creative effort," the Court noted.²⁰ Therefore, "a use that has no demonstrable effect upon the potential market for, or the value of, the copyrighted work need not be prohibited in order to protect the author's incentive to create. The prohibition of such noncommercial uses would merely inhibit access to ideas without any countervailing benefit."²¹

Commercial uses, on the other hand, were an entirely different story. "[E]very commercial use of copyrighted material is presumptively an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright," the Court noted.²² It may be that, had the Betamax been used for commercial purposes, the Court's fair use holding would have pivoted in starkly the other direction.²³ Because the Betamax was

¹⁸ *Sony*, 464 U.S. at 497.

¹⁹ 17 U.S.C. § 107(4) (2018).

²⁰ *Sony*, 464 U.S. at 450.

²¹ *Id.* at 450-51.

²² *Id.* at 451.

²³ The commercial/noncommercial distinction operates as a burden-shifting mechanism. That is, if the use is commercial, then the defendant must come forward with some evidence rebutting the presumption that the use is unfair (though, what evidence, the Court does not say). On the other hand, if the use is noncommercial, then

for noncommercial, private home recording, the Court held that copyright holders had failed to carry their burden of rebutting a presumption of fair use.²⁴

This distinction between commercial and noncommercial use rose again just a year later, in the second high court evaluation of the fair use doctrine in *Harper & Row Publishers, Inc. v. Nation Enterprises*.²⁵ This time, the Court's discussion of the significance of commercial use arose in its discussion of the first factor, where it noted that 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."²⁶ As I discuss in subpart B immediately below, this profit/nonprofit distinction in the analysis of the first factor will have dissipated by the time the first factor achieved dominance.

B. The Rise of "Transformative Use"

*Campbell v. Acuff-Rose Music, Inc.*²⁷ was a case about rap music — specifically, whether a parody of the Roy Orbison song "Pretty Woman" was a protected fair use. In deciding this issue, the Court focused its attention not on market harm but rather on a different fair use factor — that is, whether the defendant's use was transformative, i.e., whether it "adds something new" to the original, "with a further purpose or different character, altering the first with new expression, meaning, or message."²⁸ It is, perhaps, no coincidence that just a few years ago, Judge Pierre Leval had published his famous *Harvard Law Review* article extolling the importance of this first fair use factor.²⁹

By the time the *Campbell* court got to analyzing the market harm factor, it was, it seems, already a foregone conclusion. "Parody and the original usually serve different market functions," the Court noted.³⁰ Therefore, it was simply unlikely that transformative works, or, works that commented on or otherwise criticized the original, would cause market harm because copyright holders were unlikely to license

the use is presumptively fair, unless the plaintiff comes forward with evidence showing some likelihood of present or future harm. *Id.* at 451.

²⁴ *Id.*

²⁵ 471 U.S. 539 (1985).

²⁶ *Id.* at 562.

²⁷ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

²⁸ *Id.* at 579.

²⁹ Leval, *supra* note 15, at 1111.

³⁰ *Campbell*, 510 U.S. at 591.

critical reviews or parodies of their own works.³¹ Thus, where the “second use is transformative, market substitution is at least less certain.”³²

Campbell evinces the uncanny, and perhaps even necessary, tradeoff between the first and fourth factors. A transformative work, such as a scathing parody, may “kill[] demand for the original.”³³ This is certainly evidence of market harm, but, as the Court rightly points out, it “does not produce a harm cognizable under the Copyright Act.”³⁴ This point seems intuitively correct under the First Amendment principles of the fair use doctrine,³⁵ even if it essentially renders the market harms factor a nullity. Or, put another way, if a court can determine that a work is transformative, then it can (rightly or wrongly) assume that these transformative works are simply never going to be works that form the potential market for the copyrighted work — as the *Campbell* court did. This is one way to define the potential market under the fourth factor, but it does so in a way that renders the fourth factor a foregone conclusion, or else “swamps” the remaining factors with the first.

This fear that transformativeness would come to “swamp” the remaining fair use factors was perhaps borne out by the time the Second Circuit decided one of the most oft-discussed copyright cases in recent memory, *Cariou v. Prince*.³⁶ The case centered on the “appropriation artist” Richard Prince’s use of a photographer, Patrick Cariou’s works in a series of Prince’s shows in 2008. The Second Circuit, in reversing the district court, held that Prince’s use of Cariou’s photographs constituted fair use, relying on the fact that the use was transformative. As unsatisfying as some, including the most well-known copyright treatise,³⁷ have found the Second Circuit’s transformative use analysis, perhaps what is *most* curious about the decision was its analysis of the fourth factor, of market effects. “Prince’s work appeals to an entirely different sort of collector than Cariou’s,” the court opined. “Prince sold eight artworks for a total of \$10,480,000,” while Cariou “has not

³¹ *Id.* at 592.

³² *Id.* at 591.

³³ *Id.* at 591-92.

³⁴ *Id.*

³⁵ See *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1263 (11th Cir. 2001).

³⁶ *Cariou v. Prince*, 714 F.3d 694 (2d Cir. 2013).

³⁷ See NIMMER & NIMMER, NIMMER ON COPYRIGHT, *supra* note 13, § 13.05[B][6] (describing the case as “[e]mblematic of the almost limitless expansion of cases holding uses transformative”).

actively marketed his work or sold work for significant sums.”³⁸ In short, Prince and Cariou were in two entirely different stratospheres. Notwithstanding the fact that Cariou had provided direct evidence of real, tangible market harm — a cancelled show as a result of Prince’s infringing use — the Second Circuit held that the fourth factor weighed in favor of Prince.³⁹

C. *The New Primacy of Market Effects*

Since *Cariou*, we have seen, perhaps unsurprisingly, a return to the importance of the market harm factor. Perhaps, in the face of a transformativeness doctrine that was murky, uncertain, and woefully subjective, market harm provides the concrete, measurable, tangible refuge that fair use doctrine needs now more than ever. The most explicit rebuke of *Cariou* came just the following year. In *Kienitz v. Sconnie Nation LLC*, the Seventh Circuit specifically noted that it was “skeptical of *Cariou*’s approach, because asking exclusively whether something is ‘transformative’ not only replaces the list in § 107 but also could override 17 U.S.C. § 106(2), which protects derivative works.”⁴⁰ The Seventh Circuit then emphasized the fourth factor, noting that, of the four factors, market effects was usually “the most important,” opining that the key is to ask whether “the contested use is a complement to the protected work (allowed) rather than a substitute for it (prohibited).”⁴¹

Curiously, the backlash to *Cariou* occurred within the Second Circuit, as well. Perhaps the court had taken the admonition of the Seventh Circuit that *Cariou* had swallowed up the entirety of the four factors and replaced it with transformative use to heart. Perhaps the Second Circuit’s note that *Cariou* represented the “high watermark of our court’s recognition of transformative works,” and the court’s own recognition of the criticism it has engendered, should have been an early warning sign that the tides were changing.⁴² Either way, by the time the Second Circuit decided *Fox News Network, LLC v. TVEyes, Inc.*,⁴³ the

³⁸ *Cariou*, 714 F.3d at 709.

³⁹ *Id.*

⁴⁰ *Kienitz v. Sconnie Nation LLC*, 766 F.3d 756, 758 (7th Cir. 2014).

⁴¹ *Id.*

⁴² See *TCA Television Corp. v. McCollum*, 839 F.3d 168, 181 (2d Cir. 2016).

⁴³ *Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d 169 (2d Cir. 2018).

court was careful to emphasize, as the Supreme Court had done decades earlier,⁴⁴ that market harm was the “single most important element.”⁴⁵

The defendant, TVEyes, provided a service that some in the research and journalism industries have argued is invaluable: it enables clients to “easily locate and view segments of televised video programming that are responsive to the clients’ interests,” by “continuously recording vast quantities of television programming” and “compiling the recorded broadcasts into a database that is text-searchable.”⁴⁶ While acknowledging that this feature “enables TVEyes’s clients to view all of the Fox programming that (over the prior thirty-two days) discussed a particular topic of interest to them, without having to monitor thirty-two days of programming in order to catch each relevant discussion,” the Second Circuit nonetheless only deemed TVEyes’s service to be “somewhat transformative.”⁴⁷ The court did not, notably, provide any explanation for what it believed distinguished the service provided by TVEyes from the one offered by Google Books with regard to this first factor.⁴⁸ In fact, the court seemingly took a step back from other “functionally transformative” cases — *Perfect 10*,⁴⁹ *Authors Guild*,⁵⁰ even *Sony*⁵¹ — which acknowledged that when technological innovations reproduce the same content, but for a different function, that use is transformative.⁵² Here, the court found instead that TVEyes’s service

⁴⁴ See *supra* notes 23–24 and accompanying text.

⁴⁵ *Fox News Network*, 883 F.3d at 176.

⁴⁶ See *id.* at 173.

⁴⁷ *Id.* at 177–78.

⁴⁸ The court did find it significant that, with regard to the third factor, TVEyes “makes available virtually the entirety of the Fox programming that TVEyes users want to see and hear,” whereas Google’s “snippet function was designed to ensure that users could see only a very small piece of a book’s contents.” *Id.* at 179. Note, however, that TVEyes (a) erases content every thirty-two days; and (b) provided evidence showing that viewers did *not* use the service to watch full-length video, but rather only clips. See *Fox News Network, LLC v. TVEyes, Inc.*, 43 F. Supp. 3d 379, 389–95 (S.D.N.Y. 2014) (“[I]n the 32 days that these programs were available to TVEyes’ subscribers, only 560 clips were played, with an average length of play of 53.4 seconds . . .”).

⁴⁹ See, e.g., *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007) (discussing the transformative nature of Google’s use, which weighs heavily in favor of Google).

⁵⁰ See, e.g., *Authors Guild v. Google, Inc.*, 804 F.3d 202 (2d Cir. 2015) (explaining how Google’s purpose of the copying was highly transformative).

⁵¹ See, e.g., *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) (discussing copyright infringement in violation of the Copyright Act).

⁵² The first such “functionally transformative” case was *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003). There, the Ninth Circuit held that a proto-Google Image Search function was transformative because the low-resolution thumbnails appearing in the search “served an entirely different function than Kelly’s original images.” *Id.* at

was only “modest[ly] transformative” because it only “republish[ed] . . . content unaltered from its original form, with no ‘new expression, meaning or message.’”⁵³

But maybe the court did not need to distinguish *Fox News Network* from Google Books on the basis of transformativeness, because the entirety of the court’s analysis turned, apparently, on the fourth factor. Fox had argued that “TVEyes undercuts Fox’s ability to profit from licensing searchable access to its copyrighted content to third parties.”⁵⁴ Never mind, of course, that there appeared to be evidence⁵⁵ that Fox never attempted to develop such a market. And never mind that, in fact, TVEyes apparently had already approached Fox for a license and was rebuffed:⁵⁶ the court, ever sanguine, noted simply that “the failure to

818. While acknowledging that courts “have been reluctant to find fair use when an original work is merely retransmitted in a different medium,” the Ninth Circuit emphasized that in this instance, Arriba’s use served a different function, “improving access to information on the internet versus artistic expression.” *Id.* at 819. This “different purpose” test arose again in the second Ninth Circuit decision to examine the use of thumbnail images. *Perfect 10, Inc.*, 508 F.3d at 1165.

⁵³ *Fox News Network*, 883 F.3d at 178.

⁵⁴ *Id.* at 180.

⁵⁵ While much of the evidence submitted in the litigation was filed under seal, publicly-available portions suggest — though do not confirm — that Fox News has never been in the business of licensing its content for purposes of news monitoring or research. See Second Declaration of Stuart Karle at 4-5, *Fox News Network, LLC v. TVEyes, Inc.*, 43 F. Supp. 3d 379 (S.D.N.Y. 2015) (No. 1:13-cv-05315), ECF No. 141 (noting TVEyes’ expert opining that no such licensing market for internal research and analysis exists); *id.* at 7 (stating that there is “no evidence to support the conclusion that third parties regularly license *television clips* from Fox News or anyone else for internal research purposes”).

⁵⁶ *Fox News Network*, 883 F.3d at 180. Some may find it significant that the plaintiff was Fox News, and that it had, perhaps unsurprisingly, rebuffed any attempt by TVEyes to get a license for a service that would archive what was said on air for public scrutiny and fact-checking. See *Fox News Network*, 43 F. Supp. 3d at 384. As the district court noted, TVEyes provided a service “that no content provider provides,” giving journalists and researchers access not just to “stale transcript[s],” but to actual clips that convey “the tone of voice, arch of an eyebrow, or upturn of a lip [that] can color the entire story.” *Id.* at 392. Further, and unlike other services that simply “crawl” the Internet, TVEyes was the only service that created a database of “*everything* that television channels broadcast, twenty-four hours a day, seven days a week,” providing content far and above what Fox News, for example, offered online. *Id.* at 393. “The success of the TVEyes business model demonstrates that deep-pocketed consumers are willing to pay well for a service that allows them to search for and view selected television clips, and that this market is worth millions of dollars in the aggregate. Consequently, there is a plausibly exploitable market for such access to televised content, and it is proper to consider whether TVEyes displaces potential Fox revenues when TVEyes allows its clients to watch Fox’s copyrighted content without Fox’s permission.” *Fox News Network*, 883 F.3d at 180.

strike a deal satisfactory to both parties does not give TVEyes the right to copy Fox's copyrighted material without payment."⁵⁷ In other words, without any evidence that TVEyes was in fact undercutting a market that Fox had (a) already developed; (b) been in the process of developing; or (c) even undertaken any actions to show that it was interested in developing, the Second Circuit held, simply, that, any time a secondary user was able to create a new market, the secondary user should pay.⁵⁸

If we are in the midst of a renewed emphasis on market effects, this Article asks how a court should analyze this factor, on its own, without using the transformativeness factor as a crutch thus rendering market harm a foregone conclusion, when conducting its fair use analysis. Where transformativeness reigns, determining the outcome of the fourth factor is easy — as numerous courts have noted, the “more transformative the secondary use, the less likelihood that the secondary use substitutes for the original.”⁵⁹ But how should we conduct an inquiry of the fourth factor, alone, without returning to the circular logic that if a secondary use is transformative, it de facto cannot harm the market, and vice versa? Indeed, this question has puzzled scholars for some time, since a viable use by the defendant will likely always mean that some “market” exists that the copyright holder could, in theory, exploit.⁶⁰ This is the question that I hope to answer in the remainder of this Article, and which I propose be answered by looking to a copyright holder's own actions, rather than the defendant's.

II. DEFINING MARKET HARM BY A COPYRIGHT HOLDER'S CONDUCT

The previous Part has detailed how the market effects factor is seeing a resurgence in recent case law. However, as suggested above, there has been surprisingly little in the way of robust doctrinal approaches to evaluating this factor. Indeed, as this Part will detail, current approaches tend to be overly simplistic by looking to whether a defendant can pay as the ultimate litmus test for market harm — while ignoring altogether whether a copyright holder has made a market transaction impossible. This Part will then argue that looking to a copyright holder's actions —

⁵⁷ *Fox News Network*, 883 F.3d at 180.

⁵⁸ *See id.* This is sometimes referred to as the lost licensing revenue approach to market harm. *See infra* Part II.A.

⁵⁹ *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.*, 150 F.3d 132, 145 (2d Cir. 1998); *see also* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 591 (1994); *Cariou v. Prince*, 714 F.3d 694, 708 (2d Cir. 2013); *Graham v. Prince*, 265 F. Supp. 3d 366, 384 (S.D.N.Y. 2017).

⁶⁰ *See* NIMMER & NIMMER, NIMMER ON COPYRIGHT, *supra* note 13, § 13.05[A][4].

not those of the infringer's — not only avoids the circularity and hindsight bias inherent in current market harms analysis, but also better comports with the underlying goals of the market harms test.

A. *Current Approaches to Market Harms Privileges a Defendant's Actions While Ignoring the Copyright Holder's*

As the recent *Fox News Network* decision evidenced, it is certainly tempting to look solely to a defendant's actions in evaluations of the fourth factor. Did the defendant manage to create a successful market that depends, in part, on use of the copyrighted work(s)? If the answer is yes, then the copyright holder has suffered market harm, because defendant's success in creating a market demonstrates that a viable market exists for this particular use of the copyrighted work, for which the defendant should pay.⁶¹ This reasoning, otherwise referred to as the lost licensing revenue approach to evaluating market harm, has gained much traction in fair use doctrine over the past two decades.

Nobody knows for certain where the lost licensing revenue approach to evaluating market harms emerged from. Some, like Frank Pasquale, have traced the theory back to the *Betamax* decision, and, specifically, Justice Blackmun's dissent, which noted that "the infringer must demonstrate that he had not impaired the copyright holder's ability to demand compensation from . . . any group who would otherwise be willing to pay."⁶² Others, like Mark Lemley, have pointed out that one can most clearly see the doctrine coming into its own in *American Geophysical Union v. Texaco*,⁶³ a Second Circuit decision penned by Judge Leval that concluded that "it is now appropriate to consider the loss of licensing revenues in evaluating" the market effects factor.⁶⁴ "[A]n unauthorized use should be considered 'less fair' when there is a ready market or means to pay for the use," the court concluded, holding that "[p]rimarily because of lost licensing revenue," the copyright holders in this instance "have demonstrated a substantial harm to the value of their copyrights through" defendant's copying.⁶⁵

Copyright scholars have loan bemoaned that the lost licensing revenue theory of market harms "unmoor[s] fair use from the traditional rationale of market loss," potentially making "any use for

⁶¹ See *Fox News Network*, 883 F.3d at 180.

⁶² Frank Pasquale, *Breaking the Vicious Circularity: Sony's Contribution to the Fair Use Doctrine*, 55 CASE W. RES. L. REV. 777, 778 (2005).

⁶³ 60 F.3d 913 (2d Cir. 1994).

⁶⁴ *Id.* at 931.

⁶⁵ *Id.*

which the user could afford to pay into a use for which they must pay.”⁶⁶ While courts do limit claims for lost licensing revenue to “traditional, reasonable, or likely to be developed” markets, this carve-out in practice has largely only accommodated “transformative” uses such as parodies and criticism,⁶⁷ thus doing little to alleviate the problem that we have never had a stand-alone test for market harm that does not circle back to the other fair use factors.

Indeed, as *Nimmer*, the leading treatise on copyright law, points out, the current trouble with the market harm analysis is precisely because looking to what the defendant has done proves the tautology that “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.”⁶⁸ *Nimmer* asks how the hole is to be plugged:

[H]ow can one prove a potential without simply degenerating into the tautology that defendant occupied a certain niche, which itself proves a potential market to exist and to have been usurped? More pointedly, how can the defendant, who after all bears the burden of proof on the fair use affirmative defense, negate that tautology?⁶⁹

If we are diving into a tautological hole, a circular eternal return that almost all copyright scholars have condemned and recognized, then why not look the other way?⁷⁰ Why not look instead to how much or how little a copyright holder has done with regard to their own copyrighted work?

Yet under current doctrine, while a copyright holder’s positive efforts to develop the market may receive endorsement from the court as evidence that the secondary use is indeed encroaching upon the original’s territory,⁷¹ evidence going the other way — i.e., that a

⁶⁶ Lemley, *Licensing Markets*, *supra* note 4, at 190.

⁶⁷ See, e.g., *Castle Rock Entm’t, Inc. v. Carol Publ’g Grp., Inc.*, 150 F.3d 132, 146 (2d Cir. 1998) (exempting “transformative uses” from what constitutes a traditional or reasonable market, proving the point that the first factor swamps the fourth).

⁶⁸ NIMMER & NIMMER, *NIMMER ON COPYRIGHT*, *supra* note 13, § 13.05[A][4].

⁶⁹ *Id.*

⁷⁰ Some scholars dispute the characterization of lost licensing revenue as circular or tautological. See Douglas Lichtman, *Copyright as Innovation Policy: Google Book Search from a Law and Economics Perspective*, in 9 *INNOVATION POLICY AND THE ECONOMY* 55, 68 (Josh Lerner & Scott Stern eds., 2009).

⁷¹ See, e.g., *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 930 (2d Cir. 1994) (noting how rightsholders have created a “workable market for institutional users to

copyright holder either refused to license the work or has done nothing to develop (or otherwise disavowed) the specific market that the secondary use resides in — is rarely held in high regard by the court. Courts have justified passivity by the copyright owner as a sort of creative dictate afforded by the Copyright Act, a seeming natural right given to the owner to do as much or as little with the work as he pleases. It would not serve the ends of the Copyright Act, courts have opined, “if artists were denied their monopoly over derivative versions of their creative works merely because they made the artistic decision not to saturate those markets with variations of their original.”⁷² If a copyright owner has decided to let his work lay fallow, the reasoning goes, “the copyright law must respect that creative and economic choice.”⁷³

The following subpart disputes this very premise — and roots my emphasis on penalizing the copyright holder for value-destroying actions upon the very core goals of the Copyright Act.

B. *Why a Copyright Holder’s Actions Matter in the Market Harms Analysis*

As I discuss in the first subpart, penalizing a copyright holder’s negative actions comports with the utilitarian balancing of authorial incentives with public access that dominate U.S. copyright law. Negative actions disturb that very balance. Further, as I discuss in the second subpart, more rigid scrutiny of a copyright holder’s actions, far from enacting a punitive toll upon copyright holders to the overall detriment of the creative corpus, may in fact invite greater investment in, and stewardship of, the copyrighted work.

1. Penalizing Negative Actions Comports with the Utilitarian Principles Underlying Copyright Law

Unlike a European model prioritizing a copyright holder’s control over a copyrighted work, U.S. copyright law is largely economic in

obtain licenses for the right to produce their own copies of individual articles via photocopying”).

⁷² *Castle Rock*, 150 F.3d at 146 (citing district court decision); *see also* *Worldwide Church of God v. Phila. Church of God, Inc.*, 227 F.3d 1110, 1119 (9th Cir. 2000) (noting that the relevant consideration is not what markets the artist has currently developed, but all “potential” markets); *Salinger v. Random House, Inc.*, 811 F.2d 90, 99 (2d Cir. 1987) (finding it irrelevant that the author had “disavowed any intention to publish [the works at issue] during his lifetime”), *opinion supplemented & reh’g denied*, 818 F.2d 252.

⁷³ *Castle Rock*, 150 F.3d at 146 (noting that the rightsholder “has evidenced little if any interest in exploiting this market for derivative works based on *Seinfeld*”).

nature, balancing the public's right to use a work and an author's right to profit off of it.⁷⁴ Indeed, it is an oft-repeated mantra that "[u]nder the U.S. Constitution, the primary objective of copyright law is not to reward the author, but rather to secure for the public the benefits derived from the authors' labors."⁷⁵ This trade off, between public access to copyrighted works and ensuring that authors will still have incentive to create works to contribute to that rich corpus, is often referred to in the copyright literature as the "access/incentives" trade off.⁷⁶ Thus, for better or for worse, United States copyright law is far more permissive of secondary uses — and far less accommodating of complete artistic control — than European copyright laws. The contrast is perhaps best evidenced by comparing the robust European moral rights regime, which, in addition to a suite of rights more expansive than the severely curtailed U.S. ones, are also inalienable and in many cases, perpetual, against the far weaker American counterpart.⁷⁷ The fact that an artist's right to, for example, challenge when their work has been altered or decide when (or whether) a work is complete — and that relatively recently enacted moral rights laws in the United States are fully assignable and last only for the life of the artist⁷⁸ — prove an important point: U.S. copyright law largely forgoes authorial control for overall economic efficiency, at least where according an author more control over the work results in diminished social welfare.⁷⁹

Indeed, the very existence of the fair use doctrine recognizes that some socially valuable uses of copyrighted works should be permitted,

⁷⁴ See Neil Netanel, *Alienability Restrictions and the Enhancement of Author Autonomy in United States and Continental Copyright Law*, 12 CARDOZO ARTS & ENT. L.J. 1, 7 (1994) (explaining that U.S. copyright law applies "traditional property principles" while European copyright law "focuses on the author and his personal relationship to the work"). But see Jeanne C. Fromer, *Expressive Incentives in Intellectual Property*, 98 VA. L. REV. 1745, 1754 (2012) (complicating the dominant account of U.S. copyright law pitting authorial control/moral rights against economic incentive in arguing that authorial control can also increase author incentives).

⁷⁵ H.R. REP. NO. 100-609, at 17 (1988).

⁷⁶ See Lunney, *supra* note 10, at 497-98 (discussing the problem of broadening copyright protections and its associated increase in deadweight loss); Yoo, *Product Differentiation*, *supra* note 10, at 231 (noting the monopoly model of copyright law relies upon policymakers "to calibrate the level of copyright protection so as to permit the greatest possible degree of access while still providing sufficient incentives for the work to be created in the first place").

⁷⁷ See Amy M. Adler, *Against Moral Rights*, 97 CALIF. L. REV. 263, 264 (2009) (noting the "gap between our modest American moral rights laws and the more expansive European ones").

⁷⁸ See 17 U.S.C. § 106A (2018).

⁷⁹ See Lemley, *Licensing Markets*, *supra* note 4, at 192.

even if it diminishes, or completely obliterates, an author's claimed incentive to create. In other words, diminished incentive to create may be permissible if the social value of the infringing use is high. As the Supreme Court acknowledged in *Campbell*, "a lethal parody, like a scathing theater review," may "kill[] demand for the original," but such a harm is not "cognizable under the Copyright Act."⁸⁰ Parodies, like other well-known examples of protected fair use, "may quite legitimately aim at garroting the original, destroying it commercially as well as artistically" — and indeed an author may well argue that such biting criticism could diminish, or even demolish, their incentive to create in the first place.⁸¹ But such is the fine balance that fair use doctrine attempts to strike between valuable secondary uses of a copyrighted work and the author's rights in the original copyrighted work.

If fair use doctrine wrest control over the copyrighted work in certain instances of socially valuable uses away from the author, the market harm factor is the most apt place to weigh a copyright holder's own uses of the copyrighted work as against that socially valuable secondary use. While the majority of the fair use factors are rightly concerned with the contributions of the secondary use,⁸² the market harm factor is the only fair use factor that already looks to the copyright holder, by weighing "the benefit the public will derive if the use is permitted and the personal gain the copyright owner will receive if the use is denied."⁸³ In evaluating what the copyright owner may gain from a favorable holding,

⁸⁰ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 591-92 (1994).

⁸¹ *Id.* at 592 (citing BENJAMIN KAPLAN, AN UNHURRIED VIEW OF COPYRIGHT 69 (1967)).

⁸² The first fair use factor examines the "purpose and character" of the secondary use as weighed against the second factor, the "nature of the copyrighted work." Thus, this weighing asks whether the secondary use provides a significant advancement upon the original work. The third factor asks whether the "amount and substantiality of the portion used" by the secondary user was necessary for that secondary use. *See* 17 U.S.C. § 107 (2018).

⁸³ *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 613 (2d Cir. 2006) (quoting *MCA, Inc. v. Wilson*, 677 F.2d 180, 183 (2d Cir. 1981)); *see also* *Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P.*, 756 F.3d 73, 90 (2d Cir. 2014); *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792, 804-05 (9th Cir. 2003); *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1403 (9th Cir. 1997); *Wright v. Warner Books, Inc.*, 953 F.2d 731, 739 (2d Cir. 1991); *Ass'n of Am. Med. Colls. v. Cuomo*, 928 F.2d 519, 526 (2d Cir. 1991); *Fox News Network, LLC v. TVEyes, Inc.*, 43 F. Supp. 3d 379, 395 (S.D.N.Y. 2014); *Shepard v. Miler*, No. 2:10-1863, 2010 WL 5205108, at *5-6 (E.D. Cal. Dec. 15, 2010); *SOFA Entm't, Inc. v. Dodger Prods., Inc.*, 782 F. Supp. 2d 898, 909 (C.D. Cal. 2010); *Burnett v. Twentieth Century Fox Film Corp.*, 491 F. Supp. 2d 962, 971 (C.D. Cal. 2007); *Columbia Pictures Indus. v. Miramax Films Corp.*, 11 F. Supp. 2d 1179, 1189 (C.D. Cal. 1998).

many courts use the market harm factor as a proxy for damages recovery, to evaluate how much the copyright owner would be due if the use were held to be not fair.⁸⁴

Yet in a traditional damages analysis, a copyright holder's monetary recovery is often limited by a copyright holder's own actions. This should come as no surprise: traditional defenses available in copyright litigations, such as unclean hands, failure to mitigate, copyright misuse, or laches are all damages-mitigating principles that focus on what the plaintiff copyright holder has done. They are asserted by the infringer to show that even where infringement did occur, the copyright owner's own actions forfeited the copyright owner's right to recover for that infringement. These are mostly equitable principles, and because many of them have far-reaching consequences for the ability of the copyright holder to recover against any infringer for the entire time the copyright has been abused, courts have sometimes been reluctant to apply them.⁸⁵

The benefit of importing these damages-mitigating defenses into the fair use analysis (through the market harm factor) is precisely that it avoids a complete forfeiture of the copyright, asking courts instead to weigh the actions of a copyright holder against the socially valuable use of the infringer in specific cases only. Where we can recalibrate and shift the current approach to the market harm factor away from a reliance on other fair use factors, such as whether the secondary use was transformative, we allow each of the two most important fair use factors to stand on their own. Under my proposal, courts will first evaluate whether the infringer's use was transformative, or, whether it "adds something new" to the original, "altering the first with new expression, meaning, or message."⁸⁶ Then, when courts consider the market harm factor, they need not rely on the prior analysis they already did on the transformativeness factor (the "swamping" problem⁸⁷), but rather, they

⁸⁴ See *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 567 (1985). Significantly, *Harper & Row* imported principles that typically a court would only use at the damages recovery stage of litigation — that is, requiring a copyright holder to establish "with reasonable probability the existence of a causal connection between the infringement and a loss of revenue," before shifting the burden onto the infringer "to show that this damage would have occurred had there been no taking of copyrighted expression." *Id.* This language comes directly from copyright damages determinations that require a plaintiff to show a causal connection between a defendant's profits and the infringement. *Cf. On Davis v. Gap, Inc.*, 246 F.3d 152, 159 (2d Cir. 2001) (holding that a plaintiff is entitled to recover only those damages that have a causal connection to the infringement).

⁸⁵ See *infra* Part III.B.

⁸⁶ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994).

⁸⁷ See *supra* Part I.B.

can approach the market harm factor with its own analysis. That is, they must ask: did the copyright holder do anything to restrict or devalue the market for their own copyrighted work, making it more difficult for the defendant to pay for the use? If the copyright holder did not, and there existed an easy and readily available means for defendant to license the work, then this factor should weigh in favor of the copyright holder. On the other hand, if the copyright holder had engaged in negative actions to restrict its own licensing market, then this factor would weigh in favor of the secondary user.

For example, applying this proposal may have changed the outcome of the Second Circuit's decision in *Fox News Network*.⁸⁸ There, the court's analysis of the fourth factor turned exclusively on the "success of the TVEyes business model," which demonstrated that "deep-pocketed consumers are willing to pay well for a service that allows them to search for and view selected television clips."⁸⁹ The court, as an aside, noted that it mattered not that Fox rebuffed TVEyes' attempt to get a license. But in a world in which a court must evaluate the import of a plaintiff's actions, the more evidence TVEyes can introduce on this point, the better — plugging, precisely, the "evidentiary hole" that commentators have pointed out plagues the fourth factor.⁹⁰

Under my proposal, TVEyes should have been permitted to seek discovery of, and then present admissible evidence on, the history of the parties' licensing negotiations, as well as any internal correspondence between Fox News employees on the desirability of a service that archives Fox's broadcast transcripts. If the evidence reveals that Fox News refused to license its works to news monitoring organizations out of a desire to keep its broadcasts from being factually verified, then the fourth factor should weigh in favor of TVEyes — precisely because Fox News is attempting to use its copyright to regulate something outside of the scope of copyright law. (While much of the evidence submitted in the litigation was filed under seal, publicly-available portions suggest — though do not confirm — that Fox News has never been in the business of licensing its content for purposes of news monitoring or research.⁹¹) On the other hand, if the evidence revealed that Fox News

⁸⁸ *Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d 169 (2d Cir. 2018).

⁸⁹ *Id.* at 180.

⁹⁰ E.g., NIMMER & NIMMER, NIMMER ON COPYRIGHT, *supra* note 13, § 13.05[A][4] (noting that the *Campbell* court remanded on the fourth factor due to the "silent record" on market harm, but the opinion gave no guidance on how the evidentiary hole is to be plugged).

⁹¹ See Second Declaration of Stuart Karle, *supra* note 55, ¶ 12 (opining, as an expert for TVEyes, that no such licensing market for internal research and analysis exists); *id.*

simply viewed TVEyes's licensing offer to be too low, then the market effects factor would be neutral.

2. Penalizing Negative Actions Encourage Copyright Holders to Be Better, Not Worse, Stewards of Their Own Works

"[C]opyright owners may be particularly bad stewards of other people's takes on their works," Mark Lemley has noted.⁹² In fact, copyright owners may be particularly bad stewards of their own works. Part III of this Article will distinguish between what might be called "nonaction" — that is, simply failing to actively market or "saturate"⁹³ every available market — and what I term "negative actions" — those that actively destroy value in the copyrighted work. Negative actions, which I will discuss further in the following Part, may include using copyright to regulate non-copyright interests, using holdup strategies to extract a disproportionate share of the rents for themselves, laches,⁹⁴

¶ 20 (stating that there is "no evidence to support the conclusion that third parties regularly license *television clips* from Fox News or anyone else for internal research purposes").

⁹² Lemley, *Licensing Markets*, *supra* note 4, at 192.

⁹³ *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.*, 150 F.3d 132, 146 (2d Cir. 1998) (quoting *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.*, 955 F. Supp. 260, 272 (S.D.N.Y. 1997)).

⁹⁴ Some may argue that authors are in fact incentivized to create by knowing their heirs will be taken care of from the proceeds of the work. Here, Justice Breyer's dissent in *Eldred v. Ashcroft* rings particularly apt:

[A]ny remaining monetary incentive is diminished dramatically by the fact that the relevant royalties will not arrive until 75 years or more into the future, when, not the author, but distant heirs, or shareholders in a successor corporation, will receive them. Using assumptions about the time value of money provided us by a group of economists (including five Nobel prize winners), . . . it seems fair to say that, for example, a 1% likelihood of earning \$100 annually for 20 years, starting *75 years into the future*, is worth less than seven cents today What potential Shakespeare, Wharton, or Hemingway would be moved by such a sum? What monetarily motivated Melville would not realize that he could do better for his grandchildren by putting a few dollars into an interest-bearing bank account?

Eldred v. Ashcroft, 537 U.S. 186, 254-55 (2003) (Breyer, J., dissenting) (citations omitted). Add to this the fact that the very point of laches is to prohibit the collection of money from an heir who discovers the infringement but strategically decides to wait to see if the secondary user can make better use of the work. Would Shakespeare only have been incentivized to create knowing that his heirs could sit on their rights and wait for a secondary user to make better use of Shakespeare's plays than Shakespeare did? And, if so, do we want to reward the first creator who was unsuccessful at using the work, or rather, the secondary user, who was far better at creating an audience for the work? My inclination is to go with the second.

“abandonment” of the work, and using a copyright for litigation value.⁹⁵ Each of these actions may (1) distort a copyright’s true value by driving up prices beyond its fair market value; (2) evidence that there is no copyright value in the work and that the work’s true value lies beyond copyright law (where a copyright is being misused to try to get at other interests, such as privacy interests, or else where a work is being used solely for litigation value, as with trolling); (3) count on a secondary user to actively develop the value in a copyrighted work (such as in laches); or (4) in the case of orphaned works, deplete value in a copyrighted work by making it impossible to extract licensing value in the work, as interested licensors have no means of identifying the rightsholder, to say nothing of negotiating a license.

When the law penalizes a copyright holder for these value-destroying actions, we are not just rewarding second-comers who may actually be better at developing markets for copyrighted works — though this, too, is a benefit, and finds justification and analog in the doctrine of adverse possession in real property.⁹⁶ We instead encourage copyright owners to increase the market value of their copyrighted works. For example, encouraging maintenance of copyright registrations ensures that potential licensees can actually locate copyright owners to conduct marketplace negotiations and determine a market rate for the license. Increased licensing activity could likewise broaden the exposure received by the copyrighted work, in turn dramatically increasing the value of the work itself, in addition to setting any benchmark rates for licenses.⁹⁷ At the same time, penalizing negative actions discourages value-destroying actions like abandonment and copyright trolling, which many courts have already condemned but which currently seems to find little justification in existing doctrines.⁹⁸ Far from requiring

⁹⁵ See *infra* Part III.

⁹⁶ Other scholars have proposed that secondary comers should be permitted to “adversely possess” orphan works that have been deemed abandoned, just as in the property context. See U.S. COPYRIGHT OFFICE, ORPHAN WORKS AND MASS DIGITIZATION 5 (2015), <https://www.copyright.gov/orphan/reports/orphan-works2015.pdf> [<https://perma.cc/LM9A-XTAM>] [hereinafter ORPHAN WORKS AND MASS DIGITIZATION]; U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS 1 (2006), <http://www.copyright.gov/orphan/orphan-report-full.pdf> [<https://perma.cc/CT84-WLHX>] [hereinafter REPORT ON ORPHAN WORKS].

⁹⁷ See Jeanne C. Fromer, *Market Effects Bearing on Fair Use*, 90 WASH. L. REV. 615, 630 (2015) [hereinafter *Market Effects*] (noting that secondary uses can oftentimes have positive market effects on the copyrighted work, by “influencing those exposed to the transformative work to buy the copyrighted work, by underscoring the value in the copyrighted work, or by whetting consumers’ appetite for other derivative works”).

⁹⁸ One court, faced with the ever-rising threat of so-called “porn trolls,” has described the problem as thus: “Plaintiffs have outmaneuvered the legal system. They’ve discovered the nexus of antiquated copyright laws, paralyzing social stigma, and

copyright owners to go out and “saturate” every potential market, penalizing only “negative” actions takes a different tack: it tells the copyright owner to act in ways commensurate with the value of the work, or else lose the right. In this way, my proposal is no different from other intellectual property doctrines, such as trademark law, which have similar “use it or lose it” principles.⁹⁹

In short, by discouraging negative actions, we are encouraging copyright holders themselves to become better stewards of their works, by emphasizing the importance of active registration and maintenance, and by valuing copyright *qua* copyright (rather than permitting copyright to be used in service of other interests that have nothing to do with the creation of cultural goods¹⁰⁰). In the following Part, I discuss the particular actions that should be penalized pursuant to the doctrinal principles underlying the market harm factor.

III. EXAMPLES OF COPYRIGHT HOLDER ACTIONS THAT DEFEAT A CLAIM OF MARKET HARM

In this Part, I discuss several examples of “negative” actions by copyright holders that should weigh against the rightsholder in evaluating market harm, mapping each of these actions to one of the doctrinal principles underlying the factor, which I broadly categorize as follows: (1) an access/incentives balancing test that weighs “the benefit the public will derive if the use is permitted, and the personal gain the copyright owner will receive if the use is denied”¹⁰¹; (2) using the

unaffordable defense costs. And they exploit this anomaly by accusing individuals of illegally downloading a single pornographic video. Then they offer to settle — for a sum calculated to be just below the cost of a bare-bones defense. For these individuals, resistance is futile; most reluctantly pay rather than have their names associated with illegally downloading porn. So now, copyright laws originally designed to compensate starving artists allow, [sic] starving attorneys in this electronic-media era to plunder the citizenry.” *Ingenuity 13 LLC v. John Doe*, No. 2:12-cv-8333, 2013 WL 1898633, at *1 (C.D. Cal. May 6, 2013) (footnotes omitted). In this case, the court’s solution was to impose Rule 11 sanctions on the attorneys who filed mass-scale complaints. *Id.* at *4.

⁹⁹ Trademark rights are both use-based in that, with the exception of very famous marks, rights are limited to the specific goods or services a mark is actually used in connection with, and rights can be abandoned if an owner fails to use his mark for three consecutive years. See 15 U.S.C. § 1127 (2018) (“Nonuse [of a trademark] for 3 consecutive years shall be a prima facie evidence of abandonment.”); *Jean Patou, Inc. v. Theon, Inc.*, 9 F.3d 971, 975 (Fed. Cir. 1993) (“It is elementary that a registrant has rights under the statute only with respect to goods on which the trademark has been used. Trademark ownership results only from use, not from registration.”).

¹⁰⁰ See *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U.S. 663, 667-68, 687 (2014); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 973-74, 979 n.22 (4th Cir. 1990).

¹⁰¹ See cases cited *supra* note 83.

market harm factor as a proxy for damages recovery, to evaluate how much the copyright owner would be due if the use is disallowed¹⁰²; and, (3) what others have called the empirically plausible markets test,¹⁰³ or, taking stock of the actual market harm caused by the secondary use as well as an evaluation of future consequences, if the use of the sort engaged in by the defendant becomes widespread. Indeed, throughout the years, many scholars have argued that one or more of what I call negative actions — market failures/high transaction costs,¹⁰⁴ use of a copyright for litigation value (or “trolling”),¹⁰⁵ orphaned works amounting to “abandonment” of the work by the author,¹⁰⁶ use of copyright to regulate interests outside of copyright law,¹⁰⁷ or evidence regarding a copyright holder’s failure to enter a market for a copyrighted work¹⁰⁸ — should weigh in favor of fair use. However, no scholar to date has unified these separate actions into a cohesive theory for how to approach the market effects test. This Article is the first to unify all these “bad” or actions under one common theme: they constitute what I have termed “negative actions” that restrict, destroy, or otherwise forfeit a

¹⁰² See *supra* note 84.

¹⁰³ Fromer, *Market Effects*, *supra* note 97, at 642-45.

¹⁰⁴ E.g., Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1601 (1982) (arguing that market failures should continue to weigh in favor of fair use); see, e.g., Yafit Lev-Aretz, *The Subtle Incentive Theory of Copyright Licensing*, 80 BROOK. L. REV. 1357, 1357 (2015) (presenting the subtle incentive theory as a solution to the copyright licensing shortage); see also Wendy J. Gordon, *Fair Use Markets: On Weighing Potential License Fees*, 79 GEO. WASH. L. REV. 1814, 1816-17 (2011) (arguing that the lack of functioning markets and license fees should be weighed in fair use claims).

¹⁰⁵ E.g., Brad A. Greenberg, *Copyright Trolls and Presumptively Fair Uses*, 85 U. COLO. L. REV. 53, 81-91 (2014) (discussing the problem of the copyright troll as threatening speech and discouraging innovation by exploiting copyright’s monopolistic power without contributing to the market for creative works).

¹⁰⁶ E.g., Jennifer M. Urban, *How Fair Use Can Help Solve the Orphan Works Problem*, 27 BERKELEY TECH. L.J. 1379, 1407 (2012) (arguing that orphaned works result in copyright market failure). See generally Megan L. Bibb, Note, *Applying Old Theories to New Problems: How Adverse Possession Can Help Solve the Orphan Works Crisis*, 12 VAND. J. ENT. & TECH. L. 149, 151 (2009) (discussing the immense resources it takes to locate owners of orphan works).

¹⁰⁷ E.g., Fromer, *Should the Law Care*, *supra* note 8, at 549-50 (arguing that assertions of intellectual property rights with ill-fitting motivations, such as attempts to protect privacy and reputational interests, should be considered by courts).

¹⁰⁸ E.g., Fromer, *Market Effects*, *supra* note 97, at 642-45 (arguing that a court should exclude “inconceivable potential markets” from its market effects analysis, citing as an example a copyright holder who had failed to negotiate a publication deal for unpublished letters).

copyright holder's right to collect profits from a certain licensing market.

Finally, I conclude this Part by considering "nonuse" of a work, as opposed to "negative" uses, and how that should factor into a court's fair use analysis.

A. Negative Actions That Do Not Further Copyright's Access/Incentives Balance

As is oft-repeated, the purpose of copyright law's grant of a limited monopoly to rightsholders is precisely to benefit the public, by enriching the pool of public knowledge.¹⁰⁹ Such is the point of the Progress Clause, that oft-analyzed constitutional mandate that gives U.S. copyright laws its teeth and its tenor.¹¹⁰ How much financial incentive to grant rightsholders is often summed up in the literature as the tradeoff between access — the right of the public to receive the copyrighted work — and incentives for the author to create the work in the first place.¹¹¹ Because each subsequent copy of most copyrighted works (such as music, or books) is zero or near-zero, we must expect some deadweight loss to occur (as with any monopoly power).¹¹² This deadweight loss exists precisely because copyright owners can, and do, charge prices above the marginal cost of producing the subsequent copy.

Of course, while some deadweight loss is inevitable, copyright scholars and courts alike are chiefly concerned with how to reduce the amount of deadweight loss, thereby increasing consumer surplus.¹¹³ To ensure that there is the right balance between access to copyrighted works and an incentive to the author to create, some courts have turned

¹⁰⁹ See *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975); *Authors Guild v. Google, Inc.*, 804 F.3d 202, 212 (2d Cir. 2015); *MCA, Inc. v. Wilson*, 677 F.2d 180, 183 (2d Cir. 1981).

¹¹⁰ See U.S. CONST. art. I, § 8, cl. 8. See generally Barton Beebe, Bleistein, *The Problem of Aesthetic Progress, and the Making of American Copyright Law*, 117 COLUM. L. REV. 319, 341 (2017) (discussing whether the Constitution's Progress Clause recognizes artistic progress).

¹¹¹ See *supra* note 76.

¹¹² See Julie E. Cohen, *Copyright and the Perfect Curve*, 53 VAND. L. REV. 1799, 1802 fig.A (2000) (presenting a graphical representation); see also Yoo, *Product Differentiation*, *supra* note 10, at 226, 227 fig.1 (describing the graphical depiction of deadweight loss as "a staple of copyright scholarship").

¹¹³ See, e.g., Yoo, *Product Differentiation*, *supra* note 10, at 231 (noting that the monopoly model of copyright law "rel[ies] upon policymakers to calibrate the level of copyright protection so as to permit the greatest possible degree of access while still providing sufficient incentives for the work to be created in the first place").

to the concept of “fair market value.”¹¹⁴ Fair market value is an economic concept that reflects what the parties would pay in an arm’s length transaction, where neither party is compelled to act, and where both parties have reasonable knowledge of all the relevant information.¹¹⁵ Fair market value becomes impossible to determine where a monopolist or oligopolist introduces market distortions, such as the power to single-handedly walk away in a noncompetitive market.¹¹⁶

Strategic behavior by a real property owner that drives up transaction costs and indeed, may make market transactions impossible, was famously described by Guido Calabresi and A. Douglas Melamed in *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*.¹¹⁷ Now consider a contemporary intellectual property corollary.

The advent of on-demand streaming services like Spotify require access to full catalogs of works to operate a competitive service. Rights to sound recordings and to musical works are controlled by a few large record labels and music publishers, respectively. Three major companies, who together control access to something like 70% of the total recorded music market share,¹¹⁸ can “utilize their combined market power to prevent price competition among them by virtue of their complementary oligopoly power.”¹¹⁹ The same is true of the three major music publishers, Sony/ATV, Universal Music Publishing Group (“UMPG”), and Warner/Chappell, which together control roughly over 60% of the market share for musical works.¹²⁰ That each publisher

¹¹⁴ See, e.g., *Am. Soc’y of Composers, Authors & Publishers v. Showtime/The Movie Channel, Inc.*, 912 F.2d 563, 577 (2d Cir. 1990) (using price agreements for music rights as a surrogate for market rates in determining royalties).

¹¹⁵ ROBERT W. HOLTHAUSEN & MARK E. ZMIJEWSKI, *CORPORATE VALUATION: THEORY, EVIDENCE AND PRACTICE* 4-5 (4th ed. 2014).

¹¹⁶ See *Showtime/The Movie Channel*, 912 F.2d at 577 (noting that “there is no competitive market in music rights”).

¹¹⁷ Calabresi & Melamed, *supra* note 9, at 1119 (describing the “holdout” problem as one where a seller, dealing with a buyer who must aggregate rights from different parties in order to achieve an end result, risks strategic behavior from each party).

¹¹⁸ See *Global Market Shares 2016*, MUSIC BUS. WORLDWIDE (Feb. 26, 2017), <https://www.musicbusinessworldwide.com/global-market-shares-2016-sony-and-warner-gain-on-universal-as-indies-rule/> [https://perma.cc/W9CU-9DGZ].

¹¹⁹ Determination of Royalty Rates and Terms for Ephemeral Recording and Webcasting Digital Performance of Sound Recordings (Web IV), 81 Fed. Reg. 26,316 (May 2, 2016) (to be codified at 37 C.F.R. pt. 380).

¹²⁰ See Ed Christman, *Publisher’s Quarterly: Warner/Chappell Ends Sony/ATV’s 5-Year Reign*, BILLBOARD (Nov. 2, 2017), <https://www.billboard.com/articles/business/8022343/music-publishers-quarterly-warner-chappell-tops-sony-atv> [https://perma.cc/9GRL-8L2H].

would seek to engage in rent-seeking behavior when dealing with a streaming service buyer is illustrated vividly in a 2014 decision, *Pandora Media, Inc. v. Am. Soc’y of Composers, Authors, & Publishers*.¹²¹

A little backdrop to that decision: The two largest performing rights organizations (“PROs”) in the United States, the American Society of Composers, Authors and Publishers (“ASCAP”) and Broadcast Music, Inc. (“BMI”), are regulated by consent decrees. In the late 1930s and early 1940s, the Department of Justice (“DOJ”) brought antitrust claims against first ASCAP and then BMI. As part of both PROs’ settlement with the DOJ, each PRO agreed to submit to jurisdiction before a “rate court,” sitting in the Southern District of New York, for any rate disputes that may arise between a PRO and a licensee.¹²²

Accordingly, in early 2014, the streaming service Pandora sought rate court review. It had reached an impasse in its rate court negotiations with ASCAP, based mostly on the position the PRO was taking with regard to whether its publishing members were permitted to “selectively withdraw from ASCAP the right to license works to new media entities,” or, streaming services such as Spotify, Pandora, and Apple Music.¹²³ Notably, ASCAP’s largest and most powerful publishing members, including Sony and UMPG, pushed for the “partial withdrawal” right.¹²⁴

Judge Cote’s opinion in *Pandora Media* does not pull any punches. It describes Pandora’s attempt to negotiate with one major publisher, Sony, by “requesting a list of the Sony [publishing] catalog so that it could take the Sony works off” its service if Pandora and Sony could not agree on a rate. Sony rejected this request.¹²⁵ Instead, as the court noted, “Sony decided quite deliberately to withhold from Pandora the information Pandora needed to strengthen its hand in its negotiations with Sony.”¹²⁶ The court further points out that it would have been impossible for Pandora to use publicly available sources of information to correctly identify all works owned by Sony and to pull those works from Pandora’s service. And, in any event, given Sony’s market power,

¹²¹ *Pandora Media, Inc. v. Am. Soc’y of Composers, Authors, & Publishers*, 6 F. Supp. 3d 317, 320 (S.D.N.Y. 2014).

¹²² See *Meredith Corp. v. SESAC LLC*, 1 F. Supp. 3d 180, 185 (S.D.N.Y. 2014) (discussing the establishment of rate court litigation for ASCAP and BMI licensing disputes).

¹²³ *Pandora Media*, 6 F. Supp. 3d at 331.

¹²⁴ *Id.* at 331, 334 (“Large publishers were in general enthusiastic about such a change [to amend ASCAP’s Compendium rules to allow its members to withdraw from ASCAP only the right to license works to new media users], but the songwriters and independent publishers were less so.”).

¹²⁵ *Id.* at 344.

¹²⁶ *Id.* at 344-45.

Pandora needed Sony's catalog in order to run an effective radio service.¹²⁷

Pandora's negotiations with UMPG went much the same way. After news broke that Sony was able to leverage its market power to seek a 25% increase in rates, UMPG sought new licensing negotiations with Pandora on the basis that it, too, was "withdrawing" from ASCAP.¹²⁸ While UMPG did acquiesce to Pandora's request to provide it with a complete list of the UMPG works in the ASCAP repertoire, it did so "in a way that prevented Pandora from using the information to remove UMPG compositions from its service" — by subjecting the list to a nondisclosure agreement providing that Pandora would agree not to use the "confidential information" in any way except to engage in licensing negotiations.¹²⁹

In a world in which there was no compulsory licensing scheme for music performance rights (as may soon be the case, as the Department of Justice is actively looking to sunset the consent decrees¹³⁰) and Pandora were forced to rely on the fair use defense, it is possible that Pandora would, under my proposal, be eligible for a finding of fair use. Detractors might immediately point out that Pandora's provision of a "radio" streaming service is merely medium shifting, substituting one format of distribution for another,¹³¹ and therefore outright fail under the first factor (which considers whether the use is "transformative"). But the malleability of current transformativeness analysis means that a court may at least find this factor neutral. After all, Pandora's innovative Music Genome Project¹³² and its music discovery tools change the nature of music consumption, increasing accessibility to millions of tracks and allowing users to discover new artists in a way previously not

¹²⁷ *Id.* at 347 ("The headlines in three articles said it all: 'Sony/ATV "Now Has the Power to Shut Pandora Down . . .'"").

¹²⁸ *Id.* at 347.

¹²⁹ *Id.* at 349.

¹³⁰ See Glenn Manishin, *Don't Revoke the Music Licensing Antitrust Decrees*, LAW360 (June 12, 2018, 12:49 PM EDT), <https://www.law360.com/articles/1052629/don-t-revoke-the-music-licensing-antitrust-decrees> [<https://perma.cc/36QW-MYD4>].

¹³¹ See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001) (noting that "[c]ourts have been reluctant to find fair use when an original work is merely retransmitted in a different medium"); *Infinity Broad. Corp. v. Kirkwood*, 150 F.3d 104, 108 (2d Cir. 1998) (holding that retransmission of a radio broadcast over telephone lines was not transformative).

¹³² *Pandora Media*, 6 F. Supp. 3d at 327, 369 (describing how the Music Genome Project "contains a wealth of data for every composition in its database," breaking down each song into "as many as 450 characteristics").

possible under traditional radio.¹³³ Further, in a world in which transformativeness is not dispositive, and where the emphasis is on market harm, it may very well be that Pandora's use is, in fact, a fair use. Under my proposed framework, a court will balance its consideration of the first factor (and whether Pandora's service is "functionally transformative," as the standard goes¹³⁴) against the negative actions of Sony under the fourth factor. This analysis could tip the fair use scales in Pandora's favor.

Under the first factor, Pandora's use is socially beneficial. It fundamentally changes the nature of radio listening from a standard Top 40 format to millions of personalized radio feeds, which not only personally cater to each individual listener's preferences but also introduce them to new artists through use of Pandora's proprietary (and painstakingly developed) Music Genome Project algorithm.¹³⁵ More importantly, under a defendant-centric analysis of the fourth factor, Sony has engaged in negative actions by using its oligopolic power to extract higher-than-market rents. Because Sony has sabotaged an effective licensing market for its work, and distorted the value of its copyrighted works, it has made fair market value for Pandora's requested use impossible to determine.

It is important to point out here that my proposal relies upon weighing Sony's "negative" action as against the technological innovations, and functionally transformative nature of, Pandora's service. Property rule advocates may express concern that my proposal may result in the shifting of an entitlement, inappropriately, from the rightful copyright owner to the infringer, risking precisely the fear of under-compensation that Richard Epstein has articulated — and worse, in this case, because fair use results in zero compensation to the rightsholder, rather than some court-determined license fee (in contrast to rate court determination, which sets a reasonable licensing fee).¹³⁶

¹³³ Cf. *Fox News Network, LLC v. TVEyes, Inc.*, 883 F.3d 169, 180-81 (2d Cir. 2018) ("As to the first factor, TVEyes's Watch function is at least somewhat transformative in that it renders convenient and efficient access to a subset of content; however, because the function does little if anything to *change the content itself or the purpose for which the content is used, its transformative character is modest at best.*") (emphasis added).

¹³⁴ See *supra* note 52 and accompanying text.

¹³⁵ See Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings, 63 Fed. Reg. 25,394, 25,408 (May 8, 1998) (noting that the licensees created "a new industry that expands the offerings of the types of music beyond that which one receives over the radio, through live performances, and other traditional means of public performance").

¹³⁶ Richard A. Epstein, *A Clear View of the Cathedral: The Dominance of Property Rules*, 106 YALE L.J. 2091, 2093 (1997).

Yet copyright is distinctly different from real property, because the “property” right in copyright only reaches as far as necessary to give authors the financial incentive to create.¹³⁷ Where copyrights are wielded in manners that no longer benefit the public interest, and indeed, impede the public interest, such are precisely the instances in which courts have found fair use.¹³⁸ Further, current copyright law skews asymmetrically in favor of rightsholders. As others have written about in detail, even doctrines like fair use remain notoriously difficult to assert, by nature of the cost of the proceeding and the difficulty in predicting outcomes.¹³⁹ Rightsholders, in turn, exploit these uncertainties to their advantage, resulting in outcomes like the above-market rates in *Pandora Media*.¹⁴⁰ If anything, my proposed rule even the playing field by inserting checks on a copyright holder’s unfettered bargaining power. Where the current reality is underuse of or overpayment for copyrighted works due to uncertainties in the scope of rights defined and uncertain outcomes in litigation (including injunctive relief benefitting the rightsholder), my proposal hopes to shift the balance slightly in the other direction.¹⁴¹

Finally, Pandora may also be eligible for a finding of fair use because Sony’s actions — including the strategic use of poor data — have a hint of anticompetitive conduct in a manner akin to copyright misuse. As I discuss immediately below, actions that do not arise to full antitrust violations should nonetheless constitute a negative action by the copyright owner that may negate a damages recovery.

B. Negative Actions That Forfeit the Copyright Owner’s Right to Recover Damages

As discussed in Part I.A *supra*, the Supreme Court in *Harper & Row Publishers, Inc. v. Nation Enterprises*¹⁴² did not just reiterate the importance of the market harm factor as “undoubtedly the single most

¹³⁷ See *Authors Guild v. Google, Inc.*, 804 F.3d 202, 212 (2d Cir. 2015).

¹³⁸ *Id.*

¹³⁹ See Mark A. Lemley, Reply, *What’s Different About Intellectual Property?*, 83 TEX. L. REV. 1097, 1101 (2005).

¹⁴⁰ See Mark A. Lemley & Phil Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 795 (2007) (“Notably, because rights holders know that they can obtain an injunction that disadvantages the defendant more than it benefits them, they use that knowledge to drive settlement rates well above the ‘benchmark’ rate based on the value of the licensed right absent the ability to strategically threaten an injunction.”).

¹⁴¹ See *id.*

¹⁴² 471 U.S. 539 (1985).

important element of fair use”: it also imported a damages-recovery analysis — typically those that would only be applied after liability is determined — directly into its evaluation of the factor.¹⁴³ While on the one hand it might seem bizarre to evaluate damages in a liability-negating defense, evaluating the copyright holder’s damages suffered as a result of the infringement¹⁴⁴ makes sense where the market harm factor already evaluates potential monetary gain by the copyright holder if the defendant’s use is disallowed.¹⁴⁵

In a traditional damages analysis, courts take into account not only a plaintiff’s entitled recovery — they also will evaluate a defendant’s asserted damages-mitigating doctrines. For example, as discussed below, under the doctrine of laches, courts have traditionally taken into account a copyright owner’s inaction in bringing suit when determining how much in profits to award. Thus, in the fair use context, to conduct a market harm analysis with only an evaluation of a copyright owner’s entitled reward, with no evaluation of anything a copyright owner may have done to forfeit that reward, is to only engage in one-half of the

¹⁴³ *Id.* at 567 (requiring a copyright holder to establish “with reasonable probability the existence of a causal connection between the infringement and a loss of revenue,” before shifting the burden onto the infringer “to show that this damage would have occurred had there been no taking of copyrighted expression”). This language comes directly from copyright damages determinations that require a plaintiff to show a causal connection between a defendant’s profits and the infringement. See *On Davis v. Gap, Inc.*, 246 F.3d 152, 159 (2d Cir. 2001), *as amended* (May 15, 2001) (holding that a plaintiff is entitled to recover only those damages that have a causal connection to the infringement).

¹⁴⁴ A copyright owner is only entitled to recover those damages that have a direct, causal connection to the infringement. See *On Davis*, 246 F.3d at 159.

¹⁴⁵ See, e.g., *Swatch Group Mgmt. Servs. Ltd. v. Bloomberg L.P.*, 756 F.3d 73 (2d Cir. 2014) (weighing the benefit the public will derive if the use is permitted and the personal gain the copyright owner will receive if the use is denied); *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 613 (2d Cir. 2006) (balancing the benefit to the public if the use is permitted and the personal gain to the copyright owner if the use is denied); *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792 (9th Cir. 2003) (finding the defendant’s parodic purpose derived a benefit to the public that outweighed the unlikely impairment to the value of the copyright owners’ work); *Wright v. Warner Books, Inc.*, 953 F.2d 731 (2d Cir. 1991) (analyzing the benefit conferred by the defendant’s scholarly work and the potential personal gain or potential market impairment to the copyright owner from forthcoming publications); *Fox News Network, LLC v. TVEyes, Inc.*, 43 F. Supp. 3d 379 (S.D.N.Y. 2014) (evaluating the benefits to the public by the defendant’s broadcasts against the damages to the copyright owner through the potential market loss of viewership ratings); *Burnett v. Twentieth Century Fox Film Corp.*, 491 F. Supp. 2d 962 (C.D. Cal. 2007) (examining the benefits of the defendant’s parody, the potential damage to the copyright owner’s goodwill and reputation, and the potential monetary gain if a judgment was rendered for the plaintiff).

damages calculus. Therefore, certain negative actions that have their roots in damages-mitigating principles should also be assessed in weighing market harm. I discuss three examples below.

1. Laches

In 1980, the film studio Metro-Goldwyn-Mayer, Inc. (“MGM”) released, and registered a copyright in, the film *Raging Bull*, which was based on the life of boxing champion Jake LaMotta.¹⁴⁶ LaMotta’s story had been told to a writer named Frank Petrella, who registered the screenplay for the story in 1963. That registration was renewed in 1991. Seven years after obtaining that renewal, in 1998, Petrella’s daughter and now the owner of the copyright, reached out to MGM to inform them that they believed MGM’s film infringed on that screenplay.¹⁴⁷ Notwithstanding the fact that plaintiff’s attorney had repeatedly threatened to take legal action, plaintiff did not bring a claim for copyright infringement until January 6, 2009 — eighteen years after the registration was renewed.

MGM moved for summary judgment, arguing, *inter alia*, that relief was precluded due to Petrella’s eighteen-year delay, which was unreasonable and prejudicial to MGM. On its face, the facts of *Petrella* could have been a poster child for the applicability of the equitable doctrine of laches. For example, the plaintiff had conceded that she had purposefully waited to file suit until MGM’s film actually became profitable.¹⁴⁸

While *Petrella* held that laches was unavailable as an absolute bar to an infringement action,¹⁴⁹ the Court explicitly noted that a plaintiff’s delay may be factored into a court’s determination of a damages award.¹⁵⁰ Following *Petrella*, the market harm analysis is a natural place to bring in delay by the copyright holder where a court is already engaged in evaluating a plaintiff’s entitlement to damages. Where a plaintiff purposefully waits to file suit for decades, as in *Petrella*, a court should take that factor into account in evaluating any fair use claims by the defendant.

¹⁴⁶ *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U.S. 663, 673 (2014).

¹⁴⁷ *Id.* at 674.

¹⁴⁸ *Id.* at 682.

¹⁴⁹ The Court reasoned that the Copyright Act itself accounts for delay by limiting damages to a three-year period. *Id.* at 667-68.

¹⁵⁰ *Id.* at 687.

2. Copyright Misuse

Copyright misuse is a fascinating and little-explored defense. Derived from the “patent misuse” doctrine, which bars the enforcement of a patent where the patent holder has attempted to use the patent for monopolistic ends (such as price fixing or tie-ins),¹⁵¹ copyright misuse exists where a copyright holder attempts to gain for itself broader rights than those that would be available to it under the Copyright Act. A finding of copyright misuse not only bars plaintiff’s suit against defendant — it bars plaintiff’s ability to bring suits against anyone for the entire period the copyright has been misused.¹⁵²

Copyright misuse “may be found where a copyright holder asserts its rights in a way that is contrary to the public interest, namely to stimulate artistic creativity for the general public good.”¹⁵³ Thus, where a copyright holder is attempting to assert its copyright to regulate areas that lie outside copyright — for example, privacy interests,¹⁵⁴ trademark interests,¹⁵⁵ or simply an interest in preventing competition¹⁵⁶ — a court may find misuse.

In perhaps the most well-known example of someone attempting to use copyright to regulate extra-copyright interests, the tycoon Howard Hughes purchased the rights to all existing biographies and stories about him. Hughes then filed suit against an unauthorized biographer, claiming that the author had infringed his copyrights by quoting and paraphrasing passages from articles that Hughes had purchased the rights to just days before the suit. In finding for the defendant, the concurrence specifically noted that it “has never been the purpose of the copyright laws to restrict the dissemination of information about

¹⁵¹ See *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 973-74 (4th Cir. 1990).

¹⁵² See *id.* at 979 n.22 (noting misuse does not invalidate the copyright but bars plaintiff from bringing suit for infringement until it has “purged itself” of the misuse).

¹⁵³ *Id.*

¹⁵⁴ See *id.* at 978 (finding copyright misuse where the plaintiff’s standard license agreement went “much further” than simply protecting against unauthorized copying, and instead forbade “the licensee to develop or assist in developing *any* kind of computer-assisted die-making software”); *Rosemont Enters., Inc. v. Random House, Inc.*, 366 F.2d 303, 304-06 (2d Cir. 1966).

¹⁵⁵ In *Omega S.A. v. Costco Wholesale Corp.*, No. CV 04-05443, 2011 WL 8492716, at *2 (C.D. Cal. Nov. 9, 2011), the district court found that plaintiff had misused its copyrighted “globe design” to attempt to control valid resales of its watches — an area regulated by trademark law and the first sale doctrine, *not* copyright law. The decision was affirmed by the Ninth Circuit, albeit on other grounds. *Omega S.A. v. Costco Wholesale Corp.*, 776 F.3d 692, 706 (9th Cir. 2015).

¹⁵⁶ See *Lasercomb Am.*, 911 F.2d at 978.

persons in the public eye.”¹⁵⁷ While not citing the copyright misuse doctrine *per se*, the concurrence is notable for its acknowledgment that the purpose of copyright laws are “to give reasonable protection to the product of an author and his manner of expression,” and not to regulate interests — such as the desire for privacy — that fall outside this purpose.¹⁵⁸

Copyright misuse and fair use doctrine have already intersected in the past, suggesting that courts have already considered ways in which misuse may be factored into the fair use analysis. In *Salinger v. Random House, Inc.*,¹⁵⁹ the notoriously private author J.D. Salinger sued the author of an unauthorized biography for infringement of his unpublished letters. Rather than using the copyright misuse doctrine, the district court instead relied on fair use in holding that the biographer’s use was fair use precisely because Salinger was suing not to protect his copyright interest but out of a wish for privacy, which copyright laws do not protect.¹⁶⁰ (Unfortunately, the Second Circuit reversed, holding with regard to the market effects factor that it mattered not that Salinger had “disavowed” any intention to publish his letters in his lifetime.)¹⁶¹

While courts have certainly continued to apply the misuse doctrine in barring a plaintiff’s entitlement to any recovery the entire time the copyright has been misused, other courts, perhaps because of the sheer breadth of the doctrine, have purposefully limited its application to large-scale antitrust violations.¹⁶² But there is still a place for applying misuse principles in fair use doctrine. Where a copyright owner attempts to use a copyright to enforce some right outside of copyright law, this action should weigh against the plaintiff in a determination of the market harms factor — a narrower and more calibrated application of the misuse doctrine’s limitation of any recovery in any action by a plaintiff.¹⁶³

¹⁵⁷ *Rosemont Enters.*, 366 F.2d at 311.

¹⁵⁸ *See id.*

¹⁵⁹ 650 F. Supp. 413 (S.D.N.Y. 1986).

¹⁶⁰ *See id.* at 426.

¹⁶¹ *Salinger v. Random House*, 811 F.2d 90, 99 (2d Cir. 1987).

¹⁶² *See UMG Recordings, Inc. v. Lindor*, 531 F. Supp. 2d 453, 458 (E.D.N.Y. 2007) (noting “copyright owners commit copyright misuse when they attempt to extend the scope of their copyrights and then use them anticompetitively in violation of antitrust laws,” and that examples of copyright misuse arise from tying arrangements or refusal to license to competitors).

¹⁶³ Jeanne Fromer has proposed that copyright misuse is the “most direct” remedy for intellectual property owners who attempt to use intellectual property (“IP”) to enforce some right outside of IP. Fromer, *Should the Law Care*, *supra* note 8, at 586.

3. Failure to Mitigate

Like unclean hands or laches, failure to mitigate is another equitable defense that forecloses, or else limits, a plaintiff's ability to recover damages due to its own inequitable conduct. In the face of the rise of the copyright troll (which I will discuss in Section C.3, *infra*), some courts have gotten creative, holding that a plaintiff is foreclosed from damages where a plaintiff may have purposefully avoided taking steps to protect their copyrighted material, engaging instead in a campaign of entrapment — allowing subscribers to distribute content, and then seeking judgments or settlements for same.¹⁶⁴ This type of knowing failure to stop ongoing infringement forms the basis of the failure to mitigate defense.

While this defense is promising, the current trend is to prohibit defendants from asserting any type of failure to mitigate defense where a plaintiff has elected statutory damages, which is a concerning development.¹⁶⁵ Oftentimes, statutory damages far exceed the actual damages suffered by a copyright holder.¹⁶⁶ 17 U.S.C. § 504 gives copyright holders the option of electing, at any point before trial, either “actual” damages — which must be proved¹⁶⁷ — or, on the other hand, statutory damages of up to \$150,000 per work. Where actual damages become difficult to prove, statutory damages, on the other hand, may be awarded by a court in its discretion purely for an infringement of the Copyright Act, and many courts have noted that statutory damages need bear no relation to actual damages (which can be determined by looking to, for example, licensing fees).¹⁶⁸ In cases where a copyright holder is the owner of thousands of works that may bear little market value, that

¹⁶⁴ *Malibu Media, LLC v. Guastaferrro*, No. 1:14-cv-1544, 2015 WL 4603065, at *1-4 (E.D. Va. July 28, 2015).

¹⁶⁵ See *Moothart v. Bell*, 21 F.3d 1499, 1506-07 (10th Cir. 1994) (noting the mitigation of damages doctrine does not apply to a penalty statute); *Purzel Video GmbH v. St. Pierre*, 10 F. Supp. 3d 1158, 1169 (D. Colo. 2014) (“A copyright plaintiff's exclusive pursuit of statutory damages invalidates a failure-to-mitigate defense.”); *Arista Records, Inc. v. Flea World, Inc.*, 356 F. Supp. 2d 411, 422 (D.N.J. 2005).

¹⁶⁶ Lemley & Weiser, *supra* note 140, at 803 n.98; see Lemley, *Licensing Markets*, *supra* note 4, at 197-98 (noting that Google Books, if it lost the fair use defense, would be liable for up to \$300 billion in statutory damages, notwithstanding the fact that the two million copyrighted works it makes available to searchers are out of print).

¹⁶⁷ See *On Davis v. Gap, Inc.*, 246 F.3d 152, 159 (2d Cir. 2001), *as amended* (May 15, 2001).

¹⁶⁸ See *Cohen v. G & M Realty L.P.*, 320 F. Supp. 3d 421, 442, 446 (E.D.N.Y. 2018) (noting that an award of statutory damages need not bear any relation to actual damages).

\$150,000 per work number easily increases to the hundreds of millions sphere, making litigation a much more lucrative avenue than licensing.

Several courts have justified denying a mitigation defense on the grounds that statutory damages are penal in nature, and accordingly mitigation has no applicability (notwithstanding the fact that Section 504 in fact provides for statutory damages in the case of innocent infringement¹⁶⁹).¹⁷⁰

Yet even where failure to mitigate does not provide an absolute bar to recovery, a copyright owner's knowing failure to stem infringement and ameliorate its losses should still be relevant to assessing whether the defendant's use was fair, as weighed against the remaining fair use factors.

C. *Negative Actions That Show No Empirically Plausible Market Exists*

The idea that the market harm test is concerned with sussing out those potential markets that are empirically plausible and those that are simply unlikely has its roots in that famous Supreme Court fair use decision, *Campbell v. Acuff-Rose Music, Inc.*¹⁷¹ As Jeanne Fromer notes, *Campbell* was, "at least loosely, empirically grounded" — a call for defendants to plug an "evidentiary hole" by presenting objective evidence showing that certain markets are simply unlikely.¹⁷²

Certain negative actions of the copyright holder affirmatively show that there can be no actual or potential market harm, either because the copyright holder has failed to maintain her copyright properly and has thus failed to establish a viable licensing market, or where the copyright holder has chosen to forgo a normal commercial licensing market for his work altogether, wielding the copyright instead solely as a litigation weapon. In each of these instances, there can be no impact on the potential copyright market for the work, because the owner has

¹⁶⁹ 17 U.S.C. §§ 504(c)(1)-(2) (2018).

¹⁷⁰ *Point 4 Data Corp. v. Tri-State Surgical Supply & Equip., Ltd.*, No. 11-CV-726, 2013 WL 4409434, at *33 n.57 (E.D.N.Y. Aug. 2, 2013) (citing several cases where courts found the mitigation doctrine did not apply to statutory damages due to their penal nature).

¹⁷¹ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994); see also Fromer, *Market Effects*, *supra* note 97, at 642.

¹⁷² Fromer, *Market Effects*, *supra* note 97, at 642; see *Campbell*, 510 U.S. at 594. *Campbell* settled before any such remand; we shall never know what types of evidence either party could have introduced to show potential market harm or lack thereof.

expressed a disinterest in monetizing — and indeed, lack of ability to monetize — the work for its copyright value.¹⁷³

As discussed in the examples below, where a defendant puts forth evidence showing that a licensing market is unlikely because the owner cannot be located to license a work from (in the case of orphan works and pending/unmatched works), or where the owner has failed to develop a commercial licensing market, instead choosing only to use a copyright in litigation and attendant settlements, the market harm factor should weigh in favor of fair use.

1. Orphan Works

As one commentator put it, “[i]t is difficult to imagine a more complex form of market failure than that represented by orphan works.”¹⁷⁴ An orphan work is a copyrighted work for which the owner “cannot be identified and located by someone who wishes to make use of the work.”¹⁷⁵ Orphan works have long been an acknowledged problem, but the problem has been exacerbated in the digital age. The Copyright Office has already issued three reports examining the problem of orphan works since the advent of mass digitization. In its 2015 report, the Copyright Office noted that, “in the case of mass digitization — which involves making reproductions of many works, as well as possible efforts to make the works publicly accessible — obtaining permission is essentially impossible, not necessarily because of a lack of identifying information or the inability to contact the copyright owner, but because of the sheer number of individual permissions required.”¹⁷⁶

Orphan works pose a threat to the large-scale archival and digitization projects of libraries around the country. As one commentator illustrated, in connection with a digitization of the Hannah Arendt Collection for the Library of Congress’ “American Memory Project,” a digital collection of sound recordings, images, and words (written and spoken), approximately 30% of the works selected for the Arendt Collection did not contain identifying copyright information, requiring library employees to spend two years researching ownership information and attempting to secure permissions.¹⁷⁷

¹⁷³ This is true even if the defendant’s use were to become “widespread,” as the *Campbell* court put it. See *Campbell*, 510 U.S. at 590.

¹⁷⁴ Urban, *supra* note 106, at 1407.

¹⁷⁵ U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, *supra* note 96, at 1.

¹⁷⁶ U.S. COPYRIGHT OFFICE, ORPHAN WORKS AND MASS DIGITIZATION, *supra* note 96, at 1.

¹⁷⁷ See Bibb, *supra* note 106, at 151.

Because the orphan works problem has proved especially acute in mass digitization efforts, the Copyright Office has noted that the public interest is not served by the infeasible *ex ante* costs of attempting to secure permission, which often means a library or other repository must abandon its project.¹⁷⁸ And because of the threat that orphan works pose more generally to other uses by the academy, by museums, and by research institutions, the scholarship community has likewise proposed affirmative defenses to this well-documented problem, ranging from fair use to adverse possession.¹⁷⁹

The Copyright Office's orphan works study uncovered that many works have become "orphaned" due to changes in copyright laws that eliminated registration and notice requirements, as well as the automatic renewal of copyrighted works registered before the effective date of the 1976 Copyright Act.¹⁸⁰ In other words, the prerequisites that were specifically designed to provide information to facilitate use of copyrighted works have fallen away, simultaneously making it easier for rightsholders to claim ownership in a work, even as they become more difficult to locate.

No wonder, then, that numerous scholars have come forward to propose solutions to the orphan works problem.¹⁸¹ William Landes and Richard Posner, for example, have proposed a greatly expanded renewal and recordkeeping requirement, complete with requisite fees, to combat the "[e]normous" costs a licensee must undertake to trace ownership data for orphaned works.¹⁸² Under their proposal, an owner who has much to gain commercially from updating and renewing copyright records would continue to do so, whereas "works unlikely to have much

¹⁷⁸ U.S. COPYRIGHT OFFICE, ORPHAN WORKS AND MASS DIGITIZATION, *supra* note 96, at 5.

¹⁷⁹ See, e.g., Bibb, *supra* note 106 (offering a solution based on policy rationales underlying adverse possession); Jerry Brito & Bridget Dooling, *An Orphan Works Affirmative Defense to Copyright Infringement Actions*, 12 MICH. TELECOMM. TECH. L. REV. 75 (2005) (proposing an affirmative defense similar to the fair use affirmative defense to address the orphan works problem); Urban, *supra* note 106 (arguing courts should consider libraries and archives nonprofit use of orphan works as fair use).

¹⁸⁰ U.S. COPYRIGHT OFFICE, ORPHAN WORKS AND MASS DIGITIZATION, *supra* note 96, at 10.

¹⁸¹ See, e.g., Bibb, *supra* note 106 (suggesting adverse possession as a solution to the orphan works problem); Brito & Dooling, *supra* note 179 (suggesting a reasonable search in good faith for the copyright holder as an affirmative defense); Urban, *supra* note 106 (suggesting fair use as a solution to the orphan works problem); Lawrence Lessig, Opinion, *Protecting Mickey Mouse at Art's Expense*, N.Y. TIMES (Jan. 18, 2003), <http://www.nytimes.com/2003/01/18/opinion/protecting-mickey-mouse-at-art-s-expense.html> [<https://perma.cc/AAM7-ZHDP>] (suggesting copyright owners pay a tax and record their name with the government).

¹⁸² William M. Landes & Richard A. Posner, *Indefinitely Renewable Copyright*, 70 U. CHI. L. REV. 471, 477 (2003).

commercial value” would fail to be properly updated and would then fall into the public domain.¹⁸³ In this regard, a copyright holder’s failure to maintain appropriate records tells us something about the market value of the work: the owner is unlikely to have much commercial value, resulting in little likelihood of market harm.

2. Unmatched Musical Works

While the orphan works problem has been well explored in the literature, a lesser-known problem, also concerning poor data and recordkeeping, has emerged in recent years. Unmatched works are the musical works corollary to the orphan works problem for books. As the Copyright Office highlighted in a 2015 study, musical compositions, unlike sound recordings, do not contain identifying metadata at the time of release, making it impossible to correctly match a sound recording with the underlying musical work.¹⁸⁴ The “inaccessibility of ownership information” for musical works “leads to costly and burdensome efforts to identify the rightsholders and potentially incomplete or incorrect licenses, exposing [digital services] to the risk of statutory infringement damages despite diligent efforts.”¹⁸⁵ Unmatched works may have copyright owners that either cannot be identified, or that may only be partially or incorrectly identified as a result of changes in ownership when music catalogs are bought and sold, and split ownership, where the rights to musical works are spread out amongst multiple songwriters with different publishers and performing rights organizations.¹⁸⁶

While many in the music publishing industry have bemoaned this lack of ownership data, evidence abounds that some copyright owners may not only be responsible for failing to identify their own works, but also using lack of data transparency, and incomplete or inaccessible data, to their advantage. Such was, after all, precisely the set of facts presented in the Pandora rate court proceeding discussed above.¹⁸⁷

While copyright owners have openly admitted that their own “data is crap,”¹⁸⁸ these same owners do not seem keen on doing anything to fix

¹⁸³ *Id.*

¹⁸⁴ U.S. COPYRIGHT OFFICE, COPYRIGHT AND THE MUSIC MARKETPLACE 123-24 (2015).

¹⁸⁵ *Id.* at 107.

¹⁸⁶ *See infra* Part III.D.

¹⁸⁷ *Pandora Media, Inc. v. Am. Soc’y of Composers, Authors, & Publishers*, 6 F. Supp. 3d 317, 358-59 (S.D.N.Y. 2014); *see supra* Part III.A.

¹⁸⁸ Bart Herbison, *Symposium Presentation: NSAI Director Bart Herbison on Copyright Reform*, 3 BELMONT L. REV. 123, 133 (2016).

the problem.¹⁸⁹ When contrasted against good faith licensees,¹⁹⁰ a copyright owner's failure to maintain up-to-date records, and attempts to use that self-created lack of data transparency to its advantage, should be weighed against it in the market harm analysis.

3. Copyright Trolls

The copyright troll is a phenomenon unique to the twenty-first century.¹⁹¹ According to Brad Greenberg, who has argued that secondary uses of works owned by copyright trolls should be presumptive fair uses, the copyright troll is one who:

(1) acquires a copyright — either through purchase or act of authorship — for the primary purpose of pursuing past, present, or future infringement actions; (2) compensates authors or creative works with an eye to the litigation value of a work, not the commercial value; (3) lacks a good faith licensing program; and (4) uses the prospect of statutory damages and litigation expenses to extract quick settlements of often weak claims.¹⁹²

A few well-known examples of copyright trolls have emerged in recent history. One is Bridgeport Music, who most famously sued N.W.A. for the use of a two-second guitar chord from Funkadelic's "Get Off Your Ass and Jam."¹⁹³ As Tim Wu describes it, Bridgeport is technically a "catalog" company — a company that owns a portfolio of works by artists.¹⁹⁴ Moreover, Bridgeport is alleged to have stolen many

¹⁸⁹ Just recently, the digital streaming industry and the music industry have coalesced to pass the Music Modernization Act, which would hold payments for these "unmatched" works in a trust and which requires both parties to cooperate in updating ownership information for unmatched works. See Orrin G. Hatch–Bob Goodlatte Music Modernization Act, Pub. L. No. 115-264, § 102(a)(1)(B), 132 Stat. 3676, 3695 (codified as 17 U.S.C. § 115(c)(1)(F) (2018)).

¹⁹⁰ Even copyright owners have admitted that licensees who wish to get licenses cannot do so because of poor data. Herbison, *supra* note 188, at 133 ("And even good players in the digital space that want to go get a license, and depending on how they want to use it they may have to get two, three, four licenses — they don't know who owns the song. The metadata is junk.").

¹⁹¹ But see Greenberg, *supra* note 105, at 63.

¹⁹² *Id.* at 59. "Long familiar to the patent system, the troll label had little connotation and even less application in the copyright context until 2010." *Id.* at 55.

¹⁹³ Bridgeport Music, Inc. v. Dimension Films, 410 F.3d 792, 796 (6th Cir. 2005).

¹⁹⁴ Tim Wu, *Jay-Z Versus the Sample Troll*, SLATE (Nov. 16, 2006, 1:50 PM), http://www.slate.com/articles/arts/culturebox/2006/11/jayz_versus_the_sample_troll.html [https://perma.cc/F649-YTE8].

of the copyrights it owns before proceeding to bring dozens of lawsuits based on the fraudulently-procured rights.¹⁹⁵ In 2001 alone, Bridgeport brought nearly 500 copyright infringement claims against more than 800 artists and labels.¹⁹⁶ Wu terms Bridgeport a “sample troll,” a subset of the “copyright troll” who “hold[s] portfolios of old rights (sometimes accumulated in dubious fashion) and use lawsuits to extort money from successful music artists for routine sampling, no matter how minimal or unnoticeable.”¹⁹⁷ And indeed, it was the case brought by Bridgeport against N.W.A. that resulted in an opinion criticized by many in the copyright community as inhibitive to hip-hop’s long tradition of sampling, as the Sixth Circuit held in its decision that use of a sound recording — no matter how minimal or unrecognizable — constitutes infringement.¹⁹⁸

While Bridgeport’s case against Dimension Films was ultimately dismissed before any court could opine on the validity of a fair use defense, other defendants have attempted to interpose a fair use defense in other Bridgeport litigations. For example, in *Bridgeport Music, Inc. v. UMG Recordings, Inc.*,¹⁹⁹ the court held that while the first factor did favor the defendant, the fourth factor favored Bridgeport because it “could lose substantial licensing revenues if it were deprived of its right to license content such as that used by UMG.”²⁰⁰

However, under my proposed framework that penalizes negative actions, UMG could provide evidence showing what percentage of revenue Bridgeport received from valid licenses of its work, entered into outside of the context of litigation (whether actual or threatened). If that percentage is dwarfed by Bridgeport’s settlements, licenses received in response to demand letters, and damages recovery from litigation, then a court should find that no market harm exists, because Bridgeport has little or no commercial market for its work.

D. Distinguishing Negative Use from Nonuse

The foregoing examples of what I term a copyright holder’s “negative” actions — strategic behavior by the rightsholder that makes the fair

¹⁹⁵ *Id.*

¹⁹⁶ *Id.*

¹⁹⁷ *Id.*

¹⁹⁸ *Bridgeport Music*, 410 F.3d at 800; see also David Fagundes, *Efficient Copyright Infringement*, 98 IOWA L. REV. 1791, 1817 (2013) (discussing market failures as a result of the “hard line taken by federal courts, whose position is that even a seconds-long sample of a sound recording is infringing”).

¹⁹⁹ 585 F.3d 267 (6th Cir. 2009).

²⁰⁰ *Id.* at 278.

market value of the work impossible to determine; actions tantamount to misuse, laches, or failure to mitigate; actions amounting to abandonment through failure to update ownership information; and use of a copyright for litigation value rather than commercial value (licensing outside of the context of litigation or sales of the work) — are by no means comprehensive. The point is to encourage discovery into, and evidentiary submissions regarding, a rightsholder's actions, and — as the fair use doctrine requires — balance those actions as against the remaining fair use factors.

On the other hand, how should we treat a copyright owner's simple failure to license or use her work, independent of any of the "negative" actions I've noted above? For example, what if the copyright holder was just lackadaisical in marketing her work, or simply exercising her right to exclude others to use what she believed to be a sacred work? Aren't property laws, including intellectual property laws, premised on the right to exclude? Yet the Supreme Court's holding in *eBay, Inc. v. MercExchange, L.L.C.*,²⁰¹ which held that injunctions should not be granted as of right in the patent context, and subsequent applications of that holding in the copyright context, suggest that this argument as it relates to intellectual property may be on the wane.²⁰²

While I remain more skeptical of attempts, such as by the *Cariou*²⁰³ court, to frame limited dissemination or marketing by the rightsholder as weighing against him, it is also possible that these actions may matter in the context of a truly revolutionary technology that disseminates the "dormant" work to millions of people. Holding that such a use is fair finds justification in both economics (using fair use as a gap filling

²⁰¹ 547 U.S. 388 (2006) (noting that, while it is true that the Patent Act explicitly declares that "patents shall have the attributes of personal property," including "the right to exclude others from making, using, offering for sale, or selling the invention," the Patent Act also indicates that patent shall have the attributes of personal property "subject to the provisions of this title," including the provision that injunctive relief "may" issue only "in accordance with the principles of equity"). Likewise, while the Copyright Act certainly does confer certain "exclusive rights" upon a copyright holder, 17 U.S.C. § 106 (2018), that section specifically provides that those "exclusive rights" are *subject to (inter alia) section 107*, meaning the right of a copyright holder to exclude is not absolute. *See id.* § 107 (2018).

²⁰² *See Salinger v. Colting*, 607 F.3d 68, 70 (2d Cir. 2010) (applying *eBay* to the copyright context in holding that injunctive relief is not automatic upon determination of copyright infringement). *But see* Jiarui Liu, *Copyright Injunctions After eBay: An Empirical Study*, 16 LEWIS & CLARK L. REV. 215, 227-28 (2012) (empirical evidence up to 2010 shows that the majority of post-*eBay* decisions on copyright injunctions have ignored the *eBay* decision, and that, even among the cases that did cite *eBay*, most courts were reluctant to withhold injunctive relief upon a finding of copyright infringement).

²⁰³ *Cariou v. Prince*, 714 F.3d 694, 709 (2d Cir. 2013).

measure to increase access and overall consumer surplus) and humanism (if a “highbrow” artist wants to limit access to a small elite, perhaps we as a society wish instead to open up the opportunity to experience the work to the masses²⁰⁴). There have certainly been suggestions in the literature that such nonuse should in fact weigh against the copyright holder. For example, Yafit Lev-Aretz has argued that weighing the fourth fair use factor against the rightsholder in cases where she failed to develop a licensing market for the work creates a subtle incentive for the rightsholder to license and for secondary users to create.²⁰⁵ Others, like Oskar Liivak and Eduardo Peñalver, have argued similarly in the patent context — that autonomy, personhood, and efficiency arguments actually weigh in favor of penalizing patent nonuse.²⁰⁶ Liivak and Peñalver point out that personhood interests accrue to those who use intellectual property for their own creative efforts,²⁰⁷ and Christopher Yoo and Laura Heymann have argued similarly in the copyright context.²⁰⁸ Indeed, Liivak and Peñalver note that a personhood justification for nonuse may only be available for an owner who did not delay in invoking their proprietary interests, because any such delays “undercut[s] the legitimacy of an inventor’s claim that nonuse of the invention reflects important personhood concerns.”²⁰⁹ This point interweaves laches/mitigation principles into the personhood argument, and presents a case for looking closely at a copyright holder’s nonaction in conjunction with what I have termed “negative” actions.

As it currently stands, however, evidence concerning nonuse by a copyright holder needs to be weighed far more carefully by courts. There have been a few isolated, and rather curious, instances where courts have nonuse by a plaintiff against it.²¹⁰ While such instances at

²⁰⁴ See generally Xiyin Tang, *Copyright and Cultural Capital*, 66 RUTGERS L. REV. 425 (2013) (exploring how copyright laws, including moral rights and the derivative works right, foster class distinctions and facilitate the high-brow’s obsession with limited production and appropriation or “watering down” by the middle brow and low brow).

²⁰⁵ Lev-Aretz, *supra* note 104, at 1405.

²⁰⁶ Oskar Liivak & Eduardo M. Peñalver, *The Right Not to Use in Property and Patent Law*, 98 CORNELL L. REV. 1437, 1469 (2013).

²⁰⁷ *Id.* at 1471.

²⁰⁸ See Laura A. Heymann, *Everything Is Transformative: Fair Use and Reader Response*, 31 COLUM. J.L. & ARTS 445, 455 (2008); Christopher S. Yoo, *Rethinking Copyright and Personhood*, 2019 U. ILL. L. REV. 1039, 1073.

²⁰⁹ Liivak & Peñalver, *supra* note 206, at 1471.

²¹⁰ See, e.g., *Brammer v. Violent Hues Prods., LLC*, No. 1-17-cv-01009, 2018 WL 2921089, at *3 (E.D. Va. June 11, 2018) (holding no market harm where plaintiff “testified that he currently makes no effort to market the photo”); *Philpot v. Media Research Ctr. Inc.*, 279 F. Supp. 3d 708, 719 (E.D. Va. 2018) (explaining that “use of the [photographs at issue] cannot impair the marketability of plaintiff’s works where,

once bolster the point that the relevant market should be defined by looking to a copyright holder's actions (rather than a hypothetical "market" in a vacuum), the existing cases that have looked to nonuse have done so in a rather *ad hoc* manner, without considerations of the doctrinal principles underlying the fourth factor: access/incentives, damage entitlement, and potential market harm. That is, a plaintiff's failure to create a viable market in the present day with regard to her own work may not mean she can never do so — and as such, these cases should be scrutinized more closely. Requiring evidence and examination into a copyright holder's actions with regard to her own work can provide the basis for a much more rigorous examination of nonuse. For example, a high-art artist should be required to present evidence that she purposefully avoided entering into most markets, including licensing markets, precisely because entering into those markets would harm the high market value of her work — and therefore, that she was acting to protect her copyright interests in her work. (This makes sense, since scarcity drives high art prices.²¹¹) Likewise, an "indie" artist may be able to present evidence that it purposefully does not enter into licensing deals for commercials, because indie music fans will abandon the artist and its work if they hear the song in a commercial. Without a fuller evidentiary picture of specific instances in which a user has made nonuse of her work, and why they have made nonuse, we cannot speculate as to whether nonuse ultimately benefits or harms the end goals of copyright law.

CONCLUSION

Having written some sixty pages on fair use, I do not mean to imply that it is most likely to solve all of copyright's discontents. Far from it, in fact. As far as defenses go, fair use is very much imperfect. It does not

as here, plaintiff has not actually contemplated marketing those works"); *Dhillon v. Does* 1-10, No. C 13-01465 SI, 2014 WL 722592, at *6 (N.D. Cal. Feb. 25, 2014) (finding no market harm where plaintiff did not allege "that she ever sought or received a licensing fee from anyone at any time in connection with the use of the [photograph at issue]" or "that she ever attempted to sell the [photograph] at any time in the past, or that she had any plans to attempt to do so in the future"); *Calkins v. Playboy Enters. Int'l, Inc.*, 561 F. Supp. 2d 1136, 1143-44 (E.D. Cal. 2008) (finding no market harm where plaintiff was "not in the business of reselling its clients' photographs to third parties" such as the defendant).

²¹¹ See generally Xiyin Tang, *The Artist as Brand: Toward a Trademark Conception of Moral Rights*, 122 YALE L.J. 218, 231 (2012) ("[B]ecause works of art have become increasingly mechanized in their production, the artist's brand, or his signature, has replaced the artist's hand (via brushstroke, for example) as the foremost signifier of a work's value and meaning.").

create a bright line rule. It is expensive to prove.²¹² It is notoriously unpredictable. It goes case-by-case.²¹³ And, to add to all that, and as this Article has suggested, there is much about the doctrine as currently interpreted by courts that could be improved upon.

But perhaps the reason fair use remains most compelling to so many defendants, commentators, and courts is its very fluidity, and, as its metonym suggests, the careful balance it calibrates between the rights of the copyright holder and socially beneficial secondary uses that enrich the overall pool of public knowledge. Part of the reason for this balance is precisely because a finding of fair use does not result in (a) a transfer of property rights (unlike, say, adverse possession²¹⁴); (b) the creation of a bright line rule that *all* similar conduct by similarly situated defendants is also de facto fair;²¹⁵ or (c) some holding that plaintiff is precluded from enforcing her copyright at all (unlike, say, a finding of copyright misuse).²¹⁶ Likewise, just because a use is adjudicated to be not fair does not mean the copyright holder is automatically entitled to, say, an injunction. Indeed, as others have argued, courts should consider applying liability rules over property rules in some instances, in effect setting a compulsory license for a “reasonable” licensing fee.²¹⁷ In that respect, evidence of a copyright holder’s “negative” actions may

²¹² See Lemley, *Licensing Markets*, *supra* note 4, at 186 (quoting Larry Lessig in characterizing fair use as “nothing more than the right to hire a lawyer”).

²¹³ NIMMER & NIMMER, *NIMMER ON COPYRIGHT*, *supra* note 13, § 13.05[A][4].

²¹⁴ See Bibb, *supra* note 106, at 166.

²¹⁵ Compare to the section 1201 exemptions, for example, in which the Librarian, every three years, sets anew a specific set of enumerated exemptions, such as for research or teaching, to the general prohibition on anticircumvention. 17 U.S.C. § 1201 (2018).

²¹⁶ Notably, and with thanks to Paul Goldstein for pointing this out, many of these proposals have the result of stripping *all* copyright protection from the works, arguably running afoul of the Berne Convention, which expressly provides for minimum rights, minimum terms, and the absence of formalities. Darrin Keith Henning, *Copyright's Deus Ex Machina: Reverse Registration as Economic Fostering of Orphan Works*, 55 J. COPYRIGHT SOC'Y U.S. 201, 206 (2008) (noting that the “changes required by the Berne Convention and TRIP[S] made it easier for authors to gain protection,” and further that the 1976 Copyright Act, enacted to bring the United States into compliance with Berne, increased the copyright term and made the notice requirement optional). Unlike these proposals, my proposal merely looks to some of these “negative” actions — such as failing to update records — as empirical evidence of the lack of harm to the market for a copyrighted work, thus weighing the fourth factor against the plaintiff.

²¹⁷ See Lemley, *Licensing Markets*, *supra* note 4, at 187 (“If the only reason a use is considered unfair is because the copyright owner could have gotten paid to permit that use, that argument may — or may not — justify compensating the copyright owner for that ‘loss,’ but it does not justify giving the copyright owner control over the defendant’s use.”).

also militate in favor of damages rather than an injunction. If a court deems a secondary use insufficiently transformative or beneficial but is confronted with rent-seeking behavior by the copyright holder, the court still has the option of encouraging an efficient outcome through the entry of, essentially, a court-determined licensing fee, consistent with courts' approaches to rate-setting in the compulsory licensing context.

My proposal does not solve all types of uses that others may wish fair use could solve. Some may in fact want fair use to function as an eminent domain of sorts, operating to render presumptively "fair" functions like Google Image Search, which requires the impossible assemblage of rights from millions of rightsholders. In this regard, some may argue, the primacy of the first factor works precisely because transformativeness swamps all else, rendering the determination of whether a specific rightsholder's market was impaired (or the activities, whether "negative" or "positive," that the rightsholder undertook with regard to that market) irrelevant. While fair use is indeed case-by-case, in some circumstances, such as with *Perfect 10*,²¹⁸ a win against one plaintiff is really a win against all.

But I am not confident in the ability of fair use to solve these types of "new technology" cases that involve the aggregation of rights from millions of rightsholders. For one, it seems that fair use is ill-equipped to handle these types of cases, and the doctrine has merely been stretched, unsuccessfully, to fit these uses. Only by focusing on the "transformativeness" of the secondary use, to the detriment of all else (and against the admonishment that fair use must take into account all four factors), could the Ninth Circuit in *Perfect 10* reach a result that found irrelevant the fact that the rightsholder had in fact actively been developing a market for thumbnail images.²¹⁹ Further, there are other types of "new technology" cases that involve rights aggregation, such as

²¹⁸ See *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1172 (9th Cir. 2007).

²¹⁹ *Id.* at 1168. The Ninth Circuit justified its finding that the harm to Perfect 10's market was "hypothetical" by noting that no actual users of Google's search engine also downloaded Perfect 10's thumbnail images — but of course, the analysis is not harm that the copyright holder concretely suffered, but merely potential harm to "traditional" or "reasonable" markets. And this finding would seem to be squarely at odds with the Supreme Court's reminder that, in evaluating the fourth factor, a court should "consider not only the extent of the 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." *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994).

music streaming,²²⁰ where the use cannot clearly be labeled “transformative” such that the first factor — even if we assume that the first will continue to take primacy — is enough to immunize the technology from suit.

Secondly, it is not at all clear that every rightsholder should receive nothing for a new technology’s “functionally transformative” uses.²²¹ In other words, the analysis that would apply for “orphaned” works, in the context of the Google Books litigation, should be different from the analysis that would apply for books that are in-print and best sellers from famous authors. In a separate article, I query whether the development of new technologies — and the use of creative works made by these technologies — are best served through the use of a different mechanism: the class action mechanism and, specifically, copyright class action settlements.²²²

But as it is, we can continue to perfect how we analyze, and think about, the application of the four factors. As this Article has discussed, for some time, the first factor has driven that discussion, as courts and scholars alike have approached the transformativeness debate from varying angles.²²³ This Article, on the other hand, attempts to provide a better framework for how to define the relevant market under the fourth

²²⁰ See *Lowery v. Spotify USA Inc.*, No. CV1509929, 2016 WL 6818756, at *1 (C.D. Cal. May 23, 2016).

²²¹ See generally Jane C. Ginsburg, *Fair Use for Free, or Permitted-but-Paid?*, 29 BERKELEY TECH. L.J. 1383, 1383 (2014) (arguing that in “functionally transformative” cases where no new works are created, courts should not use the fair use doctrine, but rather compensate authors and rights holders pursuant to a “permitted-but-paid” regime).

²²² See Xiyin Tang, *Copyright Class Actions and Blanket Licensing by Litigation* (unpublished manuscript) (on file with author). Because copyright class actions face numerous challenges to class certification, the plaintiffs’ lawyers who bring these class actions are typically incentivized to settle. The resulting approved settlement thus allocates a judicially-approved fee for use of plaintiffs’ copyrighted works to rightsholders, while ensuring that the defendant can continue to use a massive number of works without having to individually negotiate rights for each work. On top of that, class action settlements may contain privately-mediated solutions to some of copyright’s most vexing problems: for example, the Google Books settlement (which was ultimately rejected for, I argue, the wrong reasons) contained a provision for the establishment of a database of ownership information, which would improve some of the issues associated with difficulties in identifying owners and poorly updated copyright records.

²²³ Scholars have debated, for example, from whose viewpoint we should view transformativeness: the author’s or the audience’s, and if the latter, which audience. See Heymann, *supra* note 208, at 448-49 (arguing for an audience-centered, rather than author-centered, approach to viewing transformativeness); see also Rebecca Tushnet, *Judges as Bad Reviewers: Fair Use and Epistemological Humility*, 25 LAW & LIT. 20, 23 (2013) (arguing for recognizing a multiplicity of meanings).

factor — a definition that can stand alone, without resort to the circular inquiries that have frustrated scholars to this day. How can we know what harms will befall the potential market without looking to what the copyright owner himself has done with regard to that market? Of course, it is possible that we may look to those actions and they may, frustratingly, tell us nothing. But to not look at all, to refuse to look, is a fallacy. We may be staring down only one view of the cathedral.