Article

Utility-Expanding Fair Use

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INTRODUCTION

The predominant account of United States copyright law is utilitarian: copyright law provides exclusive rights in expressive works in order to incentivize creative pursuits. In the absence of such protection, the theory goes, the prospect of freeriding would disincline writers, artists, musicians, filmmakers, and their promoters from investing time and money in new creative endeavors.[1] Copyright's fair use doctrine is often considered one of several "safety valves"[2] that prevent copyright's system of exclusive rights from undermining its foundational policy agenda. By allowing an otherwise infringing use of a copyrighted work to occur under certain circumstances, fair use prevents copyright from overly stymying public access, in particular when access to and use of existing works is necessary for new creativity.[3] To that end, many examples of fair use are those in which a follow-

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1. Shyamkrishna Balganesh, *Foreseeability and Copyright Incentives*, 122 HARV. L. REV. 1569, 1572 (2009).

2. Edward Lee, *Fair Use Avoidance in Music Cases*, 59 B.C. L. REV. 1873, 1878 (2018).

3. Pamela Samuelson, *Unbundling Fair Uses*, 77 FORDHAM L. REV. 2537, 2540 (2009) ("A well-recognized strength of the fair use doctrine is the considerable flexibility it provides in balancing the interests of copyright owners in controlling exploitations of their works and the interests of subsequent authors in drawing from earlier

on creator has utilized existing copyrighted content in such a novel way that the new expression does not provide a substitute in the markets for the original. Parody, for example, is now considered to be the paradigmatic form of fair use: a parodist must borrow components of the original work in order to critique it, but, as the Supreme Court has explained, the resulting work does not "merely 'supersede[] the objects' of the original creation . . . [but] instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message."[4]

A growing line of fair use cases has applied the doctrine to what the Second Circuit has begun calling "utility-expanding" uses.[5] These cases address the use of large quantities of entire copyrighted works in ways that do not add new expressive content but instead provide new tools for accessing information about these works and/or for delivering the existing content in a more "convenient and usable form."[6] Scholars have previously touched on the phenomenon but often referred to it differently,[7] and the Second Circuit's recent adoption of the utility-expanding moniker[8] provides judicial recognition of the category's distinctiveness from other applications of the doctrine.

This Article examines the development of utility-expanding fair use and the concept's overall place in the U.S. copyright system, both

works when expressing themselves, as well as the interests of the public in having access to new works and making reasonable uses of them.").

4. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994) (citations omitted).

5. *See, e.g.*, Capitol Recs., LLC v. ReDigi Inc., 910 F.3d 649, 661 (2d Cir. 2018).

6. *Id.*

7. Jiarui Liu, *An Empirical Study of Transformative Use in Copyright Law*, 22 STAN. TECH. L. REV. 163, 207 (2019) (describing a subset of "purposive transformation without physical transformation" fair use cases); Pamela Samuelson, *Possible Futures of Fair Use*, 90 WASH. L. REV. 815, 840 (2015) (describing "whole work fair use cases"); Jacqueline D. Lipton & John Tehranian, *Derivative Works 2.0: Reconsidering Transformative Use in the Age of Crowdsourced Creation*, 109 NW. U. L. REV. 383, 413 (2015) (describing "functionally transformative" fair use cases); Matthew Sag, *Copyright and Copy-Reliant Technology*, 103 NW. U. L. REV. 1607, 1608 (2009) (describing "copy-reliant technology" and "nonexpressive use" fair use cases); Jane C. Ginsburg, *Fair Use for Free, or Permitted-but-Paid?*, 29 BERKELEY TECH. L.J. 1383, 1388 (2014) (describing "new-distribution" fair use cases); Rebecca Tushnet, *Content, Purpose, or Both?*, 90 WASH. L. REV. 869, 876 (2015) (describing "large-scale copying endeavors" that displayed "transformative purpose").

8. The Second Circuit's use of the term "utility" is not entirely synonymous with the conventional economic definition, instead referring only to those technologies that allow the public to more easily access or productively use existing works. *See infra* Part I.

doctrinally and normatively. In so doing, the Article advances three claims.

The first claim is that there is a growing mismatch between utility-expanding technologies and fair use. Some of these mass-scale uses of copyright works often appear to usurp the copyright owner's market, potentially undermining copyright's financial-incentives goal. For this reason, the case law has generally only justified applying fair use when the innovative use is both socially valuable and plausibly non-substitutive of the protected aspects of the original work, often because a new technology merely provides *information about* the existing works rather than direct access to them. For example, in one of the most important utility-expanding technology cases, *Authors Guild v. Google, Inc.*, the Second Circuit found fair use for the Google Books Project's creation of a text-searchable database of millions of books. This service, the court held, provided "otherwise unavailable information about the originals" rather than a market substitute.[9]

In recent cases, however, courts have begun to expand the definition of what it means to be utility-expanding and, in so doing, have confronted the limitations of fair use's application to such technologies. In particular, the Second Circuit has found that some technologies that enhance the ease of accessing copyrighted works are socially valuable (or, in the language of fair use analysis, "transformative") but not fair use because of market harm to the copyright owner. For example, in *Fox News Network v. TVEyes*, the Second Circuit considered a service, TVEyes, that allowed users to make keyword searches of televised content and then watch several-minute-long clips of those programs.[10] The court found that the service's clip-viewing feature was "transformative" because it helped "users to isolate, from an ocean of programming, material that is responsive to their interests and needs, and to access that material with targeted precision."[11] But the court also found that TVEyes "undercuts" copyright owner licensing revenue and in so doing "usurped" the copyright owners' market.[12] Because of this market harm, the court declined to find fair use and affirmed an injunction preventing TVEyes from displaying clips of the copyrighted programs.[13]

9. Authors Guild v. Google, Inc., 804 F.3d 202, 215 (2d Cir. 2015). This Article occasionally styles this case as "*Google Books*" in textual references.

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

11. *Id.* at 177.

12. *Id.* at 180–81; *see also infra* Part I.C (discussing similar cases).

13. *Fox News Network, LLC*, 883 F.3d at 174.

While the utility-expanding fair use cases illustrate the importance of access-expanding dissemination technologies within copyright's overarching policy agenda, fair use alone seems to be an incomplete mechanism for allowing all such uses to occur. The Article's second claim is that these cases have begun to venture into territory traditionally occupied by a different copyright limitation: compulsory licensing. As I have explored in prior work, copyright's compulsory music licensing regulatory regime historically helped facilitate the development of access-expanding forms of music dissemination even when those technologies plausibly harmed copyright owners' primary revenue-generating markets. This regime allowed new disseminators, such as streaming services, to use copyrighted works provided they paid a government-set price to the copyright owners.[14] In so doing, compulsory licensing helped balance copyright's incentivization goal and the public's interest in access to creative content.[15]

Recognizing this link suggests that some utility-expanding technologies might be better served by a court-imposed compulsory license in which use is permitted but copyright owners still receive royalty revenue. The idea of partially (or, as some have argued, entirely) replacing fair use with a permitted-but-paid approach is not new.[16] But prior scholarship in this area has generally assumed that a compulsory license is preferable to fair use only in situations where market-based licensing is impeded by transaction costs.[17] In contrast, the Article argues that both the logic of the utility-expanding fair use cases, as well as the model of the music regime, demonstrates how compulsory licensing is itself a necessary tool for negotiating the scope of copyright's exclusive rights, irrespective of whether market-driven licensing might be feasible. The history of the music regime shows that, like fair use, compulsory license price setting can be tailored to balance between the incentive role provided by market-based compensation and the value of expanding public access to copyrighted works.[18] Indeed, the music regime historically relied on fair use-like policy criteria when setting prices and determined that new access-expanding technologies should sometimes receive prices lower than market-benchmark evidence might suggest.

14. *See, e.g.*, Jacob Victor, *Reconceptualizing Compulsory Copyright Licenses*, 72 STAN. L. REV. 915, 938 (2020).

15. *Id.*

16. *See* sources cited *infra* notes 217–20.

17. *See infra* Part III.A.

18. *See infra* Part II.

Such a policy-focused compulsory licensing model would be a logical tool in some cases involving new utility-expanding technologies, especially those that enhance efficient access to copyrighted works but, in so doing, undermine copyright owners' dissemination markets. In applying such a model, utility-expanding technologies could be conceptualized on a spectrum where uses (like search tools) that do not harm the copyright owners' conventional dissemination markets continue to receive permission without compensation, as fair use allows, but more market-substitutive technologies receive a compulsory license in which the price is determined in reference to the social value of the new use. Under this approach, a fair use finding would continue to be appropriate for socially valuable, non-substitutive technologies like Google Books. But a technology found to be transformative but too market-harming to justify fair use, such as TVEyes's clip-viewing service, could warrant a compulsory license set at rates lower than what copyright owners might be able to charge in an open licensing market.[19]

The Article's third claim is that compulsory licenses could be feasibly created by judges in certain utility-expanding use cases going forward. Such a compulsory licensing alternative to fair use would ideally be endorsed through legislative change, but even current copyright law can potentially accommodate a remedy akin to a compulsory license in situations where a utility-expanding use is socially valuable but too substitutive to warrant a fair use finding.[20] The Article outlines how such an approach might work. In particular, judicial discretion over injunctive relief and the scope of actual damages could allow judges to impose ongoing royalty obligations that account for the value of a new technology in expanding access. Moreover, the specter of such a remedy may also galvanize private licensing between recalcitrant rightsholders and utility-expanding technology companies, meaning that costly judicial rate-setting proceedings could be relatively rare.[21]

19. *See infra* Part II (explaining that, historically, the music regime usually priced its compulsory licenses at rates at the lower end of the range suggested by market proxies in order to account for the value of new access-expanding dissemination technologies).

20. *See infra* Part III.B.

21. *See infra* Part III.C. The Supreme Court's decision in *Oracle LLC v. Google America, Inc.*, No. 18-956 (U.S. Apr. 5, 2021), was announced shortly before this Article went to print. Though a full analysis of the decision is beyond the scope of this Article, *Oracle* appears to provide an important reiteration of the utilitarian and public-oriented conception of copyright generally, *id.* at 11–12, and the role of fair use in "providing a context-based check that can help to keep a copyright monopoly within its lawful bounds"

The Article develops these arguments in three Parts. Part I provides an overview of fair use and its role in the architecture of the U.S. copyright system, both doctrinally and normatively. Part I also examines the phenomenon of utility-expanding fair use and the recent indications that we may be reaching the limits of the types of technologies that fair use is able to accommodate. Part II argues that some utility-expanding fair use cases evoke concerns that, in the past, have led to the development of compulsory licensing regimes. In particular, the creation and operation of the compulsory license for digital radio provides a useful example of an alternative to fair use's all-or-nothing approach for a new utility-expanding technology. Part III utilizes the model of the historic approach to digital radio to argue that when a technology is utility-expanding but too market-harming to warrant a fair use finding, the copyright owners' remedies should be limited to a compulsory license, the price of which is calculated by explicitly considering the policy concerns raised in the initial fair use balancing inquiry. Part III also identifies a roadmap for how such a remedy could be crafted within the current copyright remedies framework, as well as explores some ways to mitigate the costs and unpredictability of such a system.

I. FAIR USE AND NEW DISSEMINATION TECHNOLOGIES

This Part examines copyright's fair use doctrine and its application to utility-expanding technologies. The first Section provides an overview of the fair use doctrine and the increased prevalence of the concept of "transformative use" in adjudicating fair use. The second Section explores the courts' growing consensus that a non-expressive,

in particular, *id.* at 17. *See also infra* Part I (similarly describing fair use as a tool for providing balance within the copyright system). However, *Oracle* may only provide limited guidance to courts adjudicating the role of fair use in the mass-scale new-technology uses that are the subject of this Article. The Court's holding that Google's use of software APIs is a transformative fair use deals more with fair use's role in fostering new creative endeavors, *Oracle*, slip op. at 25 ("To the extent that Google used parts of the Sun Java API to create a new platform that could be readily used by programmers, its use was consistent with that creative 'progress' that is the basic constitutional objective of copyright itself."); *id.* at 34–35 (describing a fair use finding as necessary to "further[] copyright's basic creativity objectives"), than in enabling the kinds of utility-expanding technologies discussed below. *See infra* Part I (distinguishing between transformative fair use that deals with new creativity and transformative fair use that deals with utility-expanding technologies). Moreover, aspects of the *Oracle* holding appear to be premised on the understanding that the works at issue are bound up with many non-copyrightable elements and thus, in contrast to works like books and films, only protected by a "thin" copyright. *Oracle*, slip op. at 15–16, 23–24.

mass-scale use of creative works can still be transformative if the use enhances users' access to or experience of existing copyrighted works in a meaningful way. The third Section explains how, despite the recognition that utility-expanding technologies can be transformative, the fair use doctrine—in particular, its market harm inquiry—seems to be increasingly unable to accommodate such uses, especially where the use enhances the public's ability to efficiently use creative works but, in so doing, provides direct access to those works. The fourth Section attempts to normatively disaggregate utility-expanding fair use from the original conception of transformative use, exploring the distinct but interrelated policy goals implicated in both forms of fair use.

A. THE TRADITIONAL CONTOURS OF TRANSFORMATIVE FAIR USE

According to the predominant Anglo-American account of intellectual property, copyright law creates property entitlements in expressive works in order to further the specific goal of incentivizing the creation of such works.[22] In the absence of the ability to exclude secondary users and monetize their creations in the market, creators would decline to create new works, which would harm social welfare.[23]

22. *See generally* Balganesh, *supra* note 1. The U.S. Constitution's intellectual property clause states explicitly that the goal of copyright and patent law is to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. CONST. art. I, § 8, cl. 8. There are several alternative theories used to justify copyright protection, but these theories are outside the scope of this Article. *See* William Fisher, *Theories of Intellectual Property*, *in* NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY 169 (Stephen R. Munzer ed., 2001).

23. Jeanne C. Fromer, *Market Effects Bearing on Fair Use*, 90 WASH. L. REV. 615, 620–21 (2015). Many scholars have questioned whether copyright is truly necessary to encourage the creation of new works and/or actually does so in practice. *See, e.g.*, Julie E. Cohen, Essay, *Copyright as Property in the Post-Industrial Economy: A Research Agenda*, 2011 WIS. L. REV. 141, 143; Dotan Oliar & Christopher Sprigman, *There's No Free Laugh (Anymore): The Emergence of Intellectual Property Norms and the Transformation of Stand-Up Comedy*, 94 VA. L. REV. 1787, 1789–90 (2008). Notably, in recent empirical work, Glynn Lunney has demonstrated that increases in music industry revenue have had little correlation with the production of new, high-quality musical works. An implication of this study is that copyright's incentive function may be overstated. GLYNN LUNNEY, COPYRIGHT'S EXCESS: MONEY AND MUSIC IN THE US RECORDING INDUSTRY 122–56 (2018). While these analyses may provide additional support to the argument that copyright owner control over works and/or compensation should sometimes be reduced in favor of access-related concerns, they are generally outside the scope of this Article. Consistent with the incentives/access paradigm described further below, as well as the general architecture of copyright law (which is likely not going away anytime soon), this Article takes as a given that copyright owners should receive some financial compensation in order to provide an incentive to create.

At the same time, the creation of property interests in otherwise nonexcludable works of information can also be socially harmful: consumers who might want access to these works may be unwilling to pay copyright owners' fees, and new works of creation that incorporate preexisting works may be impeded.[24] Although copyright generally assumes that the incentives allowed for by propertization mostly outweigh these costs, the law also creates a number of exceptions and limitations designed to provide balance between the need for incentives and the value of public access. For example, a copyright entitlement expires after a certain amount of time, allowing the work to enter the public domain and be used by anyone.[25] Copyright also only protects actual works of expression, not the underlying general ideas or factual information, preventing authors from asserting too much control over the raw materials of creativity.[26]

One of the most important of these exceptions is the fair use doctrine. In the context of a copyright infringement lawsuit, fair use allows a defendant to be excused from liability and continue their otherwise infringing use of a copyrighted work without providing any compensation to the copyright owner. Originally a common law doctrine,[27] fair use was codified in the 1976 Copyright Act in the form of a nonexclusive set of four guiding factors:

> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.[28]

The Copyright Act also provides several examples of uses that are generally fair use, including "criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research."[29]

Though fair use is a subjective four-part test, it is increasingly informed by the concept of "transformative use." Transformative use is not formally listed in the 1976 Copyright Act, but it has nonetheless become the dominant analytic model for assessing the first fair use

24. *See* sources cited *supra* note 23; *see also infra* Part I.D (exploring copyright's normative balancing act in more detail).

25. 17 U.S.C. § 302 (mandating that most new works enter the public domain seventy years after the death of the creator).

26. *Id.* § 102(b).

27. *See* Folsom v. Marsh, 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4901) (articulating Justice Story's understanding of the fair use test).

28. 17 U.S.C. § 107.

29. *Id.*

factor, and fair use generally, accounting for nearly ninety percent of fair use cases in recent years.[30] The concept was introduced in a 1990 article by Judge Pierre Leval, who argued that the first factor should weigh in favor of fair use when "the secondary use adds value to the original—if the quoted matter is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings—this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society."[31]

In 1994, the Supreme Court endorsed the importance of transformativeness in *Campbell v. Acuff-Rose Music, Inc.*, explaining that the main purpose of the first-factor inquiry is to determine whether "the new work merely 'supersede[s] the objects' of the original creation . . . or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message."[32] The Court explained that allowing transformative uses is essential to ensuring "breathing space within the confines of copyright," preventing the exclusive rights granted by copyright from undermining the policy goals that underlie them.[33]

Transformative use is a notoriously difficult concept to define, stemming partly from some ambiguities in *Campbell*. In *Campbell*, the Supreme Court held that 2 Live Crew's rap parody of Roy Orbison's song "Oh, Pretty Woman" was transformative, reasoning that parodies "provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one."[34] The other factors also favored a finding of fair use. Of particular note, the parodic nature of the use supported a finding of no market harm under the fourth factor.[35] In contrast to a commercial use that "amounts to mere duplication of the entirety of an original . . . and serves as a market replacement for it," a transformative use, like a parody, "will not affect the market for the original in a way cognizable under this factor, that is, by acting as a substitute for it . . . because the parody and the original usually serve different market functions."[36] As a non-substitutive use poses no harm to the market for the original work or to the plausible derivative work

30. Liu, *supra* note 7, at 166.

31. Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990).

32. "[I]t asks, in other words, whether and to what extent the new work is 'transformative.'" Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994) (citing Leval, *supra* note 31).

33. *Id.*; *see also infra* Part I.D (exploring copyright's policy agenda in more detail).

34. *Campbell*, 510 U.S. at 579.

35. *Id.* at 593.

36. *Id.* at 591.

markets[37]—and, by extension, no harm to authors' financial incentives[38]—the use should be allowed to proceed.

Scholars have noted that *Campbell* is unclear about whether transformative use requires a transformation of the actual physical content of the work, a more subjective transformation of the purpose behind the original work, or both. As Neil Netanel explains, to transform only expressive content is to transform "the original work by modifying or adding new expression to the original, such as in writing a sequel to a novel or script or incorporating a short snippet of a song in a new composition," but to transform purpose is to transform "the meaning or message of the original, such as an artistic painting that incorporates an advertising logo to make a comment about consumerism, or a newspaper's verbatim reprinting of a piece from a police department newsletter to expose racism or corruption in the police department."[39]

The quintessential transformative use cases are those in which both content and purpose are transformed.[40] A parody, like the one at issue in *Campbell*, provides the paradigmatic example: the parody in that case "alter[ed] the [original song] with new expression," namely new lyrics, but also evinced the transformative purpose of

37. Copyright law recognizes the right to create derivative works as one of copyright's exclusive rights. Since, in theory, any secondary use of a work could be licensed as derivative, the *Campbell* Court was careful to limit the market harm question to only the "market for potential derivative uses . . . that creators of original works would in general develop or license others to develop." *Id.* at 592; *see also infra* notes 48–53 and accompanying text (discussing tension between derivative and transformative uses).

38. *Campbell*, 510 U.S. at 593; *see also* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 450 (1984) ("[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.").

39. Neil Weinstock Netanel, *Making Sense of Fair Use*, 15 LEWIS & CLARK L. REV. 715, 746 (2011); *see also* Liu, *supra* note 7, at 205 (distinguishing between physical and purposive transformation).

40. Liu, *supra* note 7, at 205; *see also* Matthew Sag, *Predicting Fair Use*, 73 OHIO ST. L.J. 47, 57–58 (2012) ("To the extent that transformative use means making a new work out of an old one, then it stands to reason that stark differences between the work allegedly copied and the defendant's work should be indicative of transformation. . . . In such cases, the defendant has not just created a new work, she has also created a work in a different category. This shift in category should almost always entail a fundamental change in purpose, which is the hallmark of transformative use."); Ginsburg, *supra* note 7, at 1389–90 (arguing that fair use makes sense for works of "new creativity"); R. Anthony Reese, *Transformativeness and the Derivative Work Right*, 31 COLUM. J.L. & ARTS 467, 486 (2008) (discussing cases in which the "defendant has transformed the content of the plaintiff's copyrighted work and is using it for a transformative purpose").

"commenting on the original."[41] Another useful example is the use of copyrighted commercial materials in works of fine art. In *Blanch v. Koons*, the Second Circuit found that the use of a copyrighted photograph from a fashion magazine in a collage was fair use because the collage's purpose was to be a "commentary on the social and aesthetic consequences of mass media[,] . . . not to repackage [the photograph], but to employ it 'in the creation of new information, new aesthetics, new insights and understandings.'"[42] Similarly, the Second Circuit has found that the use of Grateful Dead concert posters in a history book was fair use, holding that it served a "transformative purpose of enhancing the biographical information in [the book], a purpose separate and distinct from the original artistic and promotional purpose for which the images were created."[43] In all these cases, the finding of transformative use also informed the conclusion of no market harm under the fourth fair use factor: a song and a parody of it, a commercial photograph and a work of fine art, and a poster and history book "serve different market functions" from one another, meaning the new work was not a plausible substitute for the original.[44]

As these cases demonstrate, the question of transformative "purpose" is, in many respects, a proxy for whether a court views the use as the type that should or should not be considered within the financial control of the copyright owner. By requiring a transformative purpose, the doctrine ostensibly ensures that the new work will not be a

41. *Campbell*, 510 U.S. at 579–81.

42. Blanch v. Koons, 467 F.3d 244, 253 (2d Cir. 2006) (citations omitted). Some of the scholars cited above may not consider this case to truly be one that involved a transformation of both content and purpose; since the artist used the entire photograph, some might argue that the use only evinced a change in purpose. *See, e.g.*, Liu, *supra* note 7 (cataloguing *Koons* as a case involving "purposive transformation without physical transformation"). This reading misunderstands the fault lines of the debate. The act of transposing a photo into a collage is clearly a transformation of content, even if the photo remains whole, as the artist has, to quote *Campbell*, "alter[ed] the [original] with new expression." 510 U.S. at 579. As explained further below, uses that only evince transformative purpose are those that reproduce the original with no additional expression added.

43. Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605, 609–10 (2d Cir. 2006) ("In the instant case, DK's purpose in using the copyrighted images at issue in its biography of the Grateful Dead is plainly different from the original purpose for which they were created. Originally, each of BGA's images fulfilled the dual purposes of artistic expression and promotion. The posters were apparently widely distributed to generate public interest in the Grateful Dead and to convey information to a large number of people about the band's forthcoming concerts. In contrast, DK used each of BGA's images as historical artifacts to document and represent the actual occurrence of Grateful Dead concert events featured on Illustrated Trip's timeline.").

44. *Campbell*, 510 U.S. at 590–92.

direct substitute for the copyright owner's primary market or encroach on "traditional, reasonable, or likely to be developed" derivative licensing markets.[45] Doctrinally speaking, mere alteration of content *without* transformative purpose—such as translating a novel—encroaches on these markets and is thus generally not understood to be a transformative fair use.[46] While the courts have become more divided on this issue, many agree that treating these uses as fair use would essentially destroy copyright's derivative work right and prevent copyright owners from exploiting customary and reasonable adaptations of their work.[47]

That said, the line between a customary and reasonable derivative use and a transformative use is notoriously blurry. As several commentators have explored, the logic of the transformative use inquiry can subsume the fair use inquiry entirely.[48] *Campbell* itself noted that if a use is truly transformative, the nature of the type of work used (factor two) and the amount used (factor three) provide little additional information that would weigh against a finding of fair use.[49] The Second Circuit has taken this reasoning even further, holding that to the extent a use is transformative, it by default operates in a market that is not within the purview of the copyright owner and is therefore non-market-harming under the fourth fair use factor.[50] This has raised

45. Am. Geophysical Union v. Texaco Inc., 60 F.3d 913, 930 (2d Cir. 1994).

46. Netanel, *supra* note 39, at 747–48 ("The vast majority of courts adhere to the rule that new expressive content, even a fundamental reworking of the original, is generally insufficient for the use to be transformative absent a different expressive purpose.").

47. Authors Guild v. Google, Inc., 804 F.3d 202, 225 (2d Cir. 2015) ("Derivative works over which the author of the original enjoys exclusive rights ordinarily are those that re-present the protected aspects of the original work, i.e., its expressive content, converted into an altered form, such as the conversion of a novel into a film, the translation of a writing into a different language, the reproduction of a painting in the form of a poster or post card, recreation of a cartoon character in the form of a three-dimensional plush toy, adaptation of a musical composition for different instruments, or other similar conversions."). *See generally* Reese, *supra* note 40.

48. Liu, *supra* note 7, at 168; Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978–2005*, 156 U. PA. L. REV. 549, 586 (2008) ("Controlling for the effects of the other three factors, the first and fourth factors are shown each to exert an enormous amount of influence on the outcome of the test, with the fourth very much in the driver's seat, while factor two is shown to exert no significant effect on the test outcome.").

49. *Campbell*, 510 U.S. at 579 ("[T]he more transformative the new work, the less will be the significance of other factors . . . ."); Netanel, *supra* note 39, at 745 (expanding on this logic).

50. *See, e.g.*, Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605, 615 (2d Cir. 2006); *see also* Samuelson, *supra* note 7, at 824–25 (explaining that transformative use "has come to have an almost Delphic oracular quality. Once a court accepts

questions about whether the fourth factor should receive new attention, in particular to prevent fair use from becoming a tautology and overly encroaching into licensing markets for derivative works.[51]

Despite its ill-defined boundaries, the concept of transformative use has proven useful in bringing some normative consistency to copyright law. By allowing novel, culturally valuable creative works to come about—such as parodies, fine art, and works of history—transformative fair use prevents copyright's exclusive rights from stymying its overarching goal of promoting new creative expression.[52] Fair use in many respects operates as a "two-sided balancing test in which [courts] weigh the strength of the defendant's justification for its use . . . against the impact of that use on the incentives of the plaintiff."[53] The question of transformative "purpose" now provides the analytic space for this balancing to occur, allowing courts to weigh whether or not a new use is novel or culturally valuable enough to exempt it from copyright protection or whether allowing the use to go forward would unduly harm the copyright owner financially and thus risk undermining copyright's incentive function.

that a use is transformative . . . the weight given to the amount taken and the possibility of harm to the plaintiff's market will be mitigated.").

51. Kienitz v. Sconnie Nation LLC, 766 F.3d 756, 758 (7th Cir. 2014) ("To say that a new use transforms the work is precisely to say that it is derivative and thus, one might suppose, protected under § 106(2)."); *see also* Liu, *supra* note 7, at 172. *But see* Mark A. Lemley, *Should a Licensing Market Require Licensing?*, 70 LAW & CONTEMP. PROBS. 185, 190 (2007) (arguing that the lost derivative licensing market logic can become circular).

52. Fromer, *supra* note 23, at 621 ("Most relevantly, the fair use doctrine can stimulate the production of creative works for public consumption without undercutting the value of the original copyrighted work too much. It does so by enabling third parties to create culturally valuable works that must borrow from the original work in some capacity in order to succeed, often transforming it.").

53. Beebe, *supra* note 48, at 621; *see also* Netanel, *supra* note 39, at 745 (highlighting how the locus of this policy balancing has become the transformative use test as articulated under the first factor); Samuelson, *supra* note 3, at 2617 (arguing that a common theme in fair use cases is delineating the contours of copyright's "limited monopoly" by balancing between the need to protect authors from unfair appropriation of the commercial value of their works and the "public good" that occurs "when subsequent authors are able to draw upon existing works in making and preparing to make new works, when members of the public are able to use copyrighted materials in a way that allows them to make a range of reasonable uses that pose no meaningful likelihood of harm to the markets for protected works, and when developers of new technologies provide new opportunities for the public to make such reasonable uses").

B. TRANSFORMATIVE FAIR USE AND "UTILITY-EXPANDING" TECHNOLOGIES

As the last Section explored, transformative use's origins and most frequent application relates to the use of copyrighted content for new (and culturally valuable) *expressive* purposes, such as parody. In recent years, however, courts have increasingly found that the transformation of a work's "purpose," without any expressive alteration to its content, can be transformative and support a finding of fair use. The Second Circuit has explained that the secondary use of a copyrighted work may be "transformative if it provides information about the original, 'or expands its utility'" even if the use does not involve the addition of new expressive content, of the kind that characterizes a parody or a similar follow-on creative work.[54] These "utility-expanding" technologies often make use of copyrighted works in their entirety, usually in large quantities.[55]

The concept of utility-expanding transformative use was largely born out of the increased digitization of existing copyrighted content. In particular, the Ninth Circuit, in two cases in the early 2000s, held that search engines' digital copying and reproduction of copyrighted images as low-resolution thumbnail images was fair use because such services "help index and improve access to images on the internet and their related web sites."[56] The theory here was that the use of thumbnail images for search purposes "serves a different function than [the original] use—improving access to information on the internet versus artistic expression."[57] This transformation of purpose justified a fair use finding, even though no aesthetic change was made to the underlying work and even though the works were used in their entirety.[58]

Fair use has also been found for technologies other than search, but these cases relied on logic similar to the Ninth Circuit thumbnail cases. For example, the Fourth Circuit found that a service that archived essays in a database in order to detect plagiarism made fair use of the essays. Even though the service did "not alter or augment the work," the use was transformative because it was made for an

54. Capitol Recs., LLC v. ReDigi Inc., 910 F.3d 649, 661 (2d Cir. 2018) (quoting Authors Guild v. Google, Inc., 804 F.3d 202, 214 (2d Cir. 2015)); *see also* Ginsburg, *supra* note 7, at 1390 ("New distribution fair uses are different. They do not directly produce new works.").

55. Netanel, *supra* note 39, at 748 (describing this phenomenon); *Capitol Recs., LLC*, 910 F.3d at 661 (providing "[e]xamples of such utility-expanding transformative fair uses").

56. Kelly v. Arriba Soft Corp., 336 F.3d 811, 818 (9th Cir. 2003).

57. *Id.* at 819; *see also* Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1165 (9th Cir. 2007).

58. *Perfect 10, Inc.*, 508 F.3d at 1165.

"entirely different purpose, namely, to prevent plagiarism and protect the students' written works from plagiarism," and this purpose provided public benefit.[59]

Some of the most recent and notable utility-expanding fair use findings have focused on the mass digitization of books. In *Authors Guild v. HathiTrust*, the Second Circuit considered a book digitization project which, among other things, scanned entire books so as to provide the public with a search tool in which they could find the page number of any word in a book (without access to the book text itself).[60] The court found transformative purpose in support of fair use for the search function because "the result of a word search is different in purpose, character, expression, meaning, and message from the page (and the book) from which it is drawn."[61] In *Authors Guild v. Google*, the Second Circuit considered a similar digitization project, Google Books, which provides the public with both a search tool and a "snippet" view of small selections of books containing search terms.[62] The court found that this use was also transformative based on similar logic as *HathiTrust*, adding that the snippet view aids the transformative purpose of the search tool by "show[ing] the searcher just enough context surrounding the searched term to help her evaluate whether the book falls within the scope of her interest."[63]

C. UTILITY-EXPANDING FAIR USE: DOCTRINAL TENSIONS

Despite the increased frequency of utility-expanding fair use findings, the technological use of creative works explored in these

59. A.V. *ex rel.* Vanderhye v. iParadigms, LLC, 562 F.3d 630, 638 (4th Cir. 2009). Some courts have also held that copying and distributing copyrighted content in the form of "cached" websites (which are essentially publicly available archived copies of websites) is fair use. *Field v. Google Inc.* reasoned that cached websites serve "different and socially important purposes," such as accessing now-unavailable content and keeping track of changes to websites. 412 F. Supp. 2d 1106, 1119 (D. Nev. 2006). Such uses do not pose a market substitute for the actual websites. *Id.* Notably, however, this holding appeared to depend partially on the fact that Google allows site owners to opt out of having their sites cached if they so choose, rendering it somewhat distinct from the other cases described above. *Id.* at 1118–19, 1121–22.

60. Authors Guild, Inc. v. HathiTrust, 755 F.3d 87 (2d Cir. 2014).

61. *Id.* at 97. The court also found fair use for another service provided by the database: providing accessible versions of books for the visually impaired. Here, however, the court did not rely on the concept of transformative use, instead finding that the legislative history of the 1976 Copyright Act supported the conclusion that facilitating access to works for the visually impaired was a categorical fair use. *Id.* at 101–03.

62. Authors Guild v. Google, Inc., 804 F.3d 202 (2d Cir. 2015).

63. *Id.* at 218.

cases sometimes fits less obviously into the doctrinal requirements of fair use.

The first fair use factor explicitly asks whether a use is of a "commercial nature," and courts historically found commercial use to create a presumption against a fair use finding.[64] While most utility-expanding uses are commercial, courts have since relied on the Supreme Court's repudiation of this presumption[65] and repeatedly found that commerciality is not a meaningful bar to a finding of fair use.[66]

The fourth factor's market harm analysis presents a more serious challenge for some utility-expanding technologies. Many believe that the fourth factor's role is, in most respects, to protect the financial incentive function that underlies copyright law.[67] When a secondary use provides a substitute in the primary markets exploited by the copyright owner, giving the secondary user what amounts to a free license would financially harm the copyright owner and undermine copyright's incentive goal. But when a use is not substitutive in these primary markets, this problem is less salient. When a secondary use makes *expressive* changes to the underlying work while displaying a transformative purpose, courts have been more comfortable satisfying the fourth factor by declaring that the new use results in what is essentially a new and fundamentally different work—a parody, a work of fine art, a news report, a history book—that by its nature operates in a market distinct from the original.[68] The apparent cultural value of this new work (and its creative distinctiveness) also seems to make courts more comfortable determining that the new work is not within the scope of the copyright owner's derivative work right, in contrast to works (like translations or movie adaptations) that primarily parrot the existing creativity of the original.[69]

This logic proves more difficult for utility-expanding technologies' non-expressive use of entire works, as such use can veer closer to market substitution in either the copyright owner's primary market for disseminating her works or a closely related derivative licensing market. The predominant reason that courts still find fair use is that

64. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 449 (1984).

65. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 584 (1994).

66. *Authors Guild*, 804 F.3d at 219 (outlining cases and noting that "[o]ur court has . . . repeatedly rejected the contention that commercial motivation should outweigh a convincing transformative purpose and absence of significant substitutive competition with the original").

67. *See supra* Part I.A.

68. *See supra* notes 48–51 and accompanying text.

69. *See supra* notes 48–51 and accompanying text.

many utility-expanding technologies merely "mak[e] available information *about* [the protected works] without providing the public with a substantial substitute."[70] In certain cases, this logic is unassailable; for example, in the Fourth Circuit *iParadigms* case, the new use for plagiarism detection did not provide the public with any access to the underlying material.[71] It merely created a database containing this material that could be used to detect whether a submitted document was a product of plagiarism.[72]

The logic that providing "information about" a work is not a substitute for the work is also the basis for the fair use findings in the search cases.[73] But this analysis became more complex in search cases in which users were also provided with some access to the underlying content.[74] In the Ninth Circuit thumbnail cases, users could see low-definition versions of the protected photographic works, and in *Authors Guild v. Google*, users could read short "snippets" from the protected books containing their search terms.[75] In all of these cases, the plaintiffs argued that this allowed the search function to provide a market substitute for the original work.[76] The courts rejected such arguments by pointing out that low-definition images or mere snippets

70. *Authors Guild*, 804 F.3d at 207 (emphasis added).

71. A.V. *ex rel.* Vanderhye v. iParadigms, LLC, 562 F.3d 630, 634 (4th Cir. 2009).

72. *Id.* at 643.

73. Matt Sag has been a particularly strong defender of the notion that a system that only provides information about a work should be considered fair use. *See generally* Matthew Sag, *The New Legal Landscape for Text Mining and Machine Learning*, 66 J. COPYRIGHT SOC'Y U.S.A. 291 (2019) (surveying prior work). Sag, however, has questioned whether it is useful to refer to this phenomenon as transformative use, or whether it might be preferable to think of transformative use and "non-expressive" fair use as analytically distinct. *See id*. at 320.

74. *See* Sag, *supra* note 7, at 1640–43 (discussing cases in which there was "at least the possibility that the search engine copying could function as an expressive substitute for the copyright owners' original works").

75. Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1155 (9th Cir. 2007); *Authors Guild*, 804 F.3d at 202.

76. *Perfect 10, Inc.*, 508 F.3d at 1168; *Authors Guild*, 804 F.3d at 207.

are unlikely to ever truly substitute for a full work.[77] But some have criticized this assumption as out of touch with reality.[78]

Courts now also increasingly consider technologies that enhance the public's ability to efficiently or easily *access* existing works within the context of the utility-expanding fair use paradigm.[79] Such access-enhancing uses provide particularly difficult market-harm questions when analyzed through the existing case law.

The notion that even a use that allows users to more efficiently or precisely access content can be "transformative" at all is a very new development.[80] To justify this idea, the Second Circuit has begun relying on the Supreme Court's decision in *Sony Corp. of America v. Universal City Studios, Inc*.[81] *Sony* did not actually concern the direct dissemination of copyrighted works by a utility-expanding technology; rather, the question at issue was whether the makers of Betamax recording technology could be contributorily liable for the infringing uses of consumers who recorded copyright content from broadcast television to watch at a later time.[82] To resolve this question, the Court found that time-shifting activities by consumers would constitute fair use, thus shielding the Betamax makers from contributory infringement.[83]

77. *See, e.g.*, *Authors Guild*, 804 F.3d at 224–25 ("Even if the snippet reveals some authorial expression, because of the brevity of a single snippet and the cumbersome, disjointed, and incomplete nature of the aggregation of snippets made available through snippet view, we think it would be a rare case in which the searcher's interest in the protected aspect of the author's work would be satisfied by what is available from snippet view, and rarer still—because of the cumbersome, disjointed, and incomplete nature of the aggregation of snippets made available through snippet view—that snippet view could provide a significant substitute for the purchase of the author's book."); *Perfect 10, Inc.*, 508 F.3d at 1168 ("[B]ecause thumbnails were not a substitute for the full-sized images, they did not harm the photographer's ability to sell or license his full-sized image.").

78. *See, e.g.*, Ginsburg, *supra* note 7, at 1385; Liu, *supra* note 7, at 166.

79. *See, e.g.*, Authors Guild, Inc. v. HathiTrust, 744 F.3d 87 (2d Cir. 2014) (emphasizing the importance of enhanced accessibility in the fair use analysis).

80. Fox News Network, LLC v. TVEyes, Inc., 883 F.3d 169, 177 (2d Cir. 2018).

81. 464 U.S. 417 (1984).

82. *Id.* at 434.

83. *Id.* at 447–54. In finding fair use for the copying of an entire work without the addition of new creative expression, *Sony* sparked controversy. Indeed, Justice Blackmun, in dissent, argued that only "productive" uses should be considered fair in order to prevent copyright from unduly "reduc[ing] the creative ability of others." *Id.* at 479 (Blackmun, J., dissenting). This dissent appeared to understand fair use as *exclusively* a mechanism for allowing follow-on expression that incorporates existing works.

While *Sony* predated the introduction of transformative use into fair use analysis, the Second Circuit, in the 2018 decision *Fox News Network v. TVEyes*, characterized *Sony*'s holding as supporting the proposition that "a secondary use may be a fair use if it utilizes technology to achieve the transformative purpose of improving the efficiency of delivering content."[84] Reading *Sony* to support the conclusion that technology that simply "improve[s] the efficiency of delivering content" is transformative was, as a concurrence noted, a "novel interpretation" that is in some tension with prior holdings.[85]

Moreover, this interpretation of *Sony* raises particularly difficult questions under the fourth factor's market-harm analysis. Unlike a search tool, a use that improves efficient content delivery often enables *direct access* to that work, generally to the detriment of the existing dissemination markets controlled by the copyright owner.[86] The *TVEyes* court cabined this problem by noting that the use in *Sony* did not "unreasonably encroach" on rightsholders' entitlements.[87] The court explained that because the efficiency-enhancing use in *Sony* was provided to users who, "by virtue of owning a television set[,] had *acquired authorization* to watch a program when it was broadcast," the use did not usurp any of the copyright owners' lawful markets.[88] This appears to be the court's attempt to create a limiting principle to ensure that its reading of *Sony* did not run afoul of the fourth factor analysis.

Although *Sony* did discuss the fact that viewers have generally been "invited" to watch broadcast TV content,[89] the discussion in *TVEyes* was something of a reinterpretation of *Sony*, which in fact focused its fourth factor analysis predominantly on the non-commerciality of personal time-shifting and the lack of empirical evidence of

84. *Fox News Network, LLC*, 883 F.3d at 177.

85. *Id.* at 188–90 (Kaplan, J., concurring); *see also* Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 106 (2d Cir. 1998) (holding that a service that allowed users to listen to radio broadcasts over the phone was not transformative); Swatch Grp. Mgmt. Servs. v. Bloomberg L.P., 756 F.3d 73, 84 (2d Cir. 2014) (characterizing *Sony* as involving a "non-transformative use"); Sag, *supra* note 73, at 332 (criticizing *TVEyes*'s transformative use discussion as "muddled").

86. This was the essential problem posed in *Infinity Broadcasting Corp.*; there, the court denied fair use, finding that Kirkwood, operator of a service that transmitted radio broadcasts over the telephone, was "selling Infinity's copyrighted material in a market that Infinity, as the copyright owner, is exclusively entitled to exploit. Kirkwood . . . *replaces* Infinity as the supplier of those broadcasts to meet the demand of his customers." 150 F.3d at 111.

87. *Fox News Network, LLC*, 883 F.3d at 177.

88. *Id.* (emphasis added).

89. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 449–50 (1984).

market harm.[90] Nonetheless, the Second Circuit appears to be increasingly comfortable in classifying *Sony* as a utility-expanding transformative use case. In *Capitol Records v. ReDigi*, an opinion by Judge Leval endorsed *TVEyes*'s characterization of *Sony* as a transformative use case and agreed that because the viewing public had a general "right to view the content of a telecast" there could be no market harm cognizable under the fourth factor when these same users utilized time-shifting technology to watch the telecast at a later date.[91]

Though both *TVEyes* and *ReDigi* accepted the idea that enhancing efficient access to copyrighted works *could in theory* qualify as a utility-expanding transformative use,[92] both cases also grappled with the limitations of the fair use analysis in allowing such technologies to operate without permission of the copyright owner and for no compensation.[93]

In *TVEyes*, the court considered a service that allows clients to engage in searches of transcripts of televised programs and then watch clips of any program responsive to the search. Though the plaintiffs on appeal did not challenge the transcript search function,[94] they

90. *Id.* at 448–56.

91. Capitol Recs., LLC v. ReDigi Inc., 910 F.3d 649, 661 (2d Cir. 2018). Other cases might similarly be reclassified as "transformative" under this reinterpretation of *Sony*. For example, in *Fox Broadcasting Co. v. Dish Network L.L.C.*, the Ninth Circuit held that a cable box that permits users to fast-forward through commercials makes fair use of television programming. 747 F.3d 1060, 1068 (9th Cir. 2014). This holding depended on the fact that the Ninth Circuit found that plaintiffs had no copyright interest in the commercials themselves, which allowed the court to treat the use as essentially no different from the use in *Sony*. *Id.*

92. Matt Sag has criticized these transformative use findings as doctrinally and normatively inconsistent with cases like *Authors Guild v. Google*, 804 F.3d 202 (2d Cir. 2015), in which users were provided with information about the underlying work but no direct access to the works. Sag, *supra* note 73, at 333 ("Conveying a substantial part of an expressive work so that some new member of the public can appreciate that expression without modification or addition may be welfare enhancing, but it is not transformative."). I agree that this was new terrain for the concept of transformative use, but I disagree that it is inherently inconsistent with prior use of the concept, which has more often than not been a proxy for allowing judges to grapple with the social value of a new use of copyrighted works generally. Transformative use, in this respect, is a useful concept for defining the social value of a new use and thus allowing this value to be weighed against the market harm to the copyright owner (and, by extension, the potential harm to copyright's incentive function). *See infra* Parts I.D, III (exploring this idea in more detail and explaining how the kind of access-enhancing transformative use identified in cases like *TVEyes* may be a useful analytic tool for crafting a compulsory license for utility-expanding technologies that do not warrant fair use findings, respectively).

93. *Fox News Network, LLC*, 883 F.3d at 169; *Capitol Recs., LLC*, 910 F.3d at 649.

94. The search function was challenged at the district court, which held that it

argued that the "watch function" was an infringement of their exclusive rights. The Second Circuit considered TVEyes's fair use defense and, relying primarily on the novel interpretation of *Sony* described above, as well as *Google Books*, found that the clip watching feature was

> transformative insofar as it enables users to isolate, from an ocean of programming, material that is responsive to their interests and needs, and to access that material with targeted precision. It enables nearly instant access to a subset of material—and to information about the material—that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means.[95]

This efficiency-enhancing use was sufficiently transformative to satisfy the first factor.

But despite finding that TVEyes had made transformative use of Fox's copyrighted television content, the court ultimately declined to find fair use, primarily because of the third factor (amount of use) and fourth factor (market harm).[96] The court found that in distributing ten-minute clips of Fox's content, TVEyes "likely provide[s] [its] users with all of the Fox programming that they seek," without need to utilize Fox's authorized distribution channels.[97] And by "providing Fox's content to TVEyes clients without payment to Fox, TVEyes is in effect depriving Fox of licensing revenues from TVEyes or from similar entities" or of revenue from a similar service that Fox might itself wish to create.[98] Thus, even though the service was transformative, because it was substitutive of a valuable market for direct dissemination of Fox's content, the court concluded that a fair use finding was inappropriate.[99]

In *ReDigi*, the Second Circuit considered whether a service that facilitated "resale" of digital music files was infringing.[100] Though the primary question at issue was whether copyright's first sale doctrine applies to digital files (the court determined that it does not), the

was fair use. This conclusion seems unassailable under the precedent set by *HathiTrust*, *Google Books*, and other search cases: that a technology that provides useful information about a work, without providing direct access to the work, is fair use. *See* Sag, *supra* note 73, at 330–31; *Fox News Network, LLC*, 883 F.3d at 174–77.

95. *Fox News Network, LLC*, 883 F.3d at 177.

96. *Id.* at 174.

97. *Id.* at 179.

98. *Id.* at 180. The court noted that in contrast to the Betamax manufacturers in *Sony*, TVEyes was not enhancing access to content to which the users had already obtained a lawful entitlement. *Id.*

99. *Id.*

100. Capitol Recs., LLC v. ReDigi Inc., 910 F.3d 649 (2d Cir. 2018).

defendant also argued that its service was fair use.[101] The court found that the argument that ReDigi makes transformative use of musical works was very weak compared to prior precedents like *TVEyes*; indeed, the "transformative purpose and character of TVEyes' use, while modest, was far more transformative than what ReDigi has shown here," which essentially was that it was merely operating a resale market.[102] The court added that even if ReDigi is "credited with some faint showing of a transformative purpose, that purpose is overwhelmed by the substantial harm ReDigi inflicts on the value of Plaintiffs' copyrights through its direct competition in the rights holders' legitimate market, offering consumers a substitute for purchasing from the rights holders."[103] Thus, based on logic similar to *TVEyes*, the court found no fair use.[104]

Though courts outside the Second Circuit have declined to adopt as expansive a definition of transformativeness as the Second Circuit, several other cases have grappled with whether utility-expanding technologies, despite their benefits to the public, are too market-substitutive to warrant fair use findings. The recent Ninth Circuit case *Disney Enterprises v. VidAngel* presents a useful example.[105] VidAngel operates an online streaming service that allows users to view modified versions of copyrighted movies and television shows in which "objectionable" content is removed based on the viewers' preferences.[106] VidAngel operates without a license from copyright owners, which led a group of film and television studios to file suit in California federal court.[107] Among VidAngel's defenses was that its service made fair use of the plaintiffs' content.[108]

At the Ninth Circuit, VidAngel argued that its use was transformative because it enables parents to ensure that shows and movies are consistent with "[r]eligious convictions and parental views" and thus watchable.[109] The Ninth Circuit rejected this argument, relying on a narrow interpretation of the first factor analysis and holding that because VidAngel does not "add[] something new" or change the

101. *Id.* at 655–60.

102. *Id.* at 660–63.

103. *Id.* at 663.

104. *Id.* at 664.

105. Disney Enters., Inc. v. VidAngel, Inc., 869 F.3d 848 (9th Cir. 2017).

106. *Id.* at 854.

107. *Id.* at 855.

108. VidAngel also argued that the Family Movie Act precluded copyright infringement, but both the district court and Ninth Circuit rejected this defense. *Id.* at 857–61.

109. *Id.* at 861.

"expression, meaning, or message" of the copyrighted content, it is not transformative.[110] This conclusion is in some tension with the Second Circuit's current understanding that a utility-expanding technology can also be transformative; if a technology like TVEyes is transformative because it enables users to instantly access "material that is responsive to their interests and needs . . . with targeted precision,"[111] then a technology like VidAngel that allows users to selectively omit materials in order to render a work more responsive to their interests or needs would arguably also qualify as transformative. That being said, the Ninth Circuit's fourth factor analysis rested on more solid ground. The court agreed with the district court that VidAngel clearly harmed rightsholders' markets because "VidAngel's service is an effective substitute for Plaintiff's unfiltered works," noting in particular that "surveys suggested that 49% of its customers would watch the movies without filters" and that, by using VidAngel's service, these users were depriving the rightsholders of revenue.[112] In this respect, the Ninth Circuit's ultimate determination that VidAngel was not fair use echoes the Second Circuit's findings in transformative-but-substitutive cases like *TVEyes*.

A similar tension was at play in the Eleventh Circuit case *Cambridge University Press v. Patton*, which concerned Georgia State University (GSU)'s use of a digital course management system that allows professors to upload selections of academic books and articles for students to use.[113] A group of publishers sued GSU, arguing that this system's unlicensed use of their works constituted infringement.[114] The Eleventh Circuit found that the first fair use factor favored GSU, but only because of the non-profit and educational nature of the use.[115] The court, relying on the same narrow definition of transformativeness as the Ninth Circuit, found that the use was *not* transformative.[116] Nonetheless, this reasoning would also likely not hold up under the Second Circuit's more expansive understanding of transformativeness

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

111. Fox News Network, LLC v. TVEyes, Inc., 883 F.3d 169, 177 (2d Cir. 2018).

112. *Disney Enters., Inc.*, 869 F.3d at 861.

113. Cambridge Univ. Press v. Patton, 769 F.3d 1232 (11th Cir. 2014).

114. *Id.* at 1237.

115. *Id.* at 1263–67.

116. *Id.* at 1262–63 ("Here, Defendants' use of excerpts of Plaintiffs' works is not transformative. The excerpts of Plaintiffs' works posted on GSU's electronic reserve system are verbatim copies of portions of the original books which have merely been converted into a digital format. . . . Defendants [do not] use the excerpts for anything other than the same intrinsic purpose—or at least one of the purposes—served by Plaintiffs' works: reading material for students in university courses.").

as covering any utility-enhancing technology. Indeed, the Eleventh Circuit emphasized that the GSU course service "facilitate[s] easy access" to the plaintiff's works, explaining more generally that "this is a case in which technological advances have created a new, more efficient means of delivery for copyrighted works."[117]

As with the cases discussed above, the fourth factor analysis allowed the court to grapple with the market harm that allowing uncompensated use of such an access-enhancing technology might allow. The court found primarily that the presence of an established licensing market for educational use of excerpts of academic work meant that GSU's use was market-harming, at least for those works where there was evidence such a licensing market exists.[118] In remanding to the district court, the Eleventh Circuit repeatedly emphasized the importance of paying particular heed to the fourth factor going forward because, in such dissemination-related cases, the "threat of market substitution [is particularly] serious."[119]

The recently settled case *Chronicle Books v. Audible, Inc.*[120] provides a final example of the limits of the utility-expanding fair use paradigm. Audible, a prominent audiobook company, recently introduced a new feature called "Audible Captions," which provides users with the ability to read text while listening (and only while listening) to the audiobook.[121] The text in question is not taken directly from the original written book but rather generated from the audiobook using transcription software.[122] A group of publishers filed suit, alleging that Audible only has a license to distribute *audio* books and that, by also distributing the text of books, Audible was infringing copyrights in the written versions of these books.[123]

Audible raised fair use as a defense, among other arguments. Audible argued primarily that its service was designed "to 'expand[]

117. *Id.* at 1237, 1263.

118. *Id.* at 1275–81 ("[I]t is sensible that a particular unauthorized use should be considered 'more fair' when there is no ready market or means to pay for the use, while such an unauthorized use should be considered 'less fair' when there is a ready market or means to pay for the use.").

119. *Id.* at 1281; *see also* Cambridge Univ. Press v. Albert, 906 F.3d 1290, 1299 (11th Cir. 2018) (reversing and remanding the district court's fair use determination and reiterating the court's prior fourth-factor holdings).

120. Complaint, Chronicle Books, LLC v. Audible, Inc., No. 19-CV-07913 (S.D.N.Y. Aug. 23, 2019).

121. *Id.* at 11–14.

122. Memorandum of Law in Opposition to Motion for Preliminary Injunction at 6, *Chronicle Books*, No. 19-CV-07913 (S.D.N.Y. Sept. 12, 2019).

123. *Id.*

[the] utility' of audiobooks."[124] In particular, the service "will enhance the listening experience" of users by providing them with the option to briefly summon text in order to make sure they have understood the audio content, and/or access word definitions, translations, and other reference materials.[125]

Although the case settled before the court could address this fair use argument,[126] Audible would have likely faced challenges similar to the defendants in *TVEyes* and *ReDigi*. Even if Audible could prove its service was transformative (a plausible argument under the *TVEyes* precedent and its interpretation of *Sony*), it would have faced an uphill battle under the fourth factor analysis. Indeed, as the publisher plaintiffs argued, the Audible Captions service usurps the market for text-format books, as well as harms established licensing markets for "cross-format" services that provide both audio and text simultaneously.[127] Audible's clear unlicensed creation of a market substitute in one of the copyright owners' primary dissemination markets would likely have precluded a fair use finding.[128]

Cases like *TVEyes*, *VidAngel*, *Cambridge University Press*, and *Audible* display the limitations of using the fair use doctrine as a vehicle for allowing utility-expanding technologies to thrive. When a utility-expanding use merely provides information about the underlying work—like a search tool—but does not actually display usable versions of the work, courts seem to be comfortable finding no market harm under the fourth fair use factor on the ground that the copyright owner's primary dissemination markets remain untouched. But when a use does provide access to much of the underlying work, even if it does so in an innovative, efficiency-enhancing manner, the fourth factor is likely to preclude a finding of fair use because of market harm to the copyright owner. As the next Section explores, this doctrinal

124. *Id.* at 23 (quoting Capitol Recs., LLC v. ReDigi Inc., 910 F.3d 649, 660–61 (2d Cir. 2018)).

125. *Id.* at 19–22.

126. Andrew Albanese, *Audible, Publishers Say They've Settled 'Captions' Lawsuit*, PUBLISHERS WKLY. (Jan. 14, 2020), https://www.publishersweekly.com/pw/by-topic/digital/copyright/article/82166-audible-publishers-say-they-ve-settled-captions-lawsuit.html [https://perma.cc/M345-NETC].

127. Reply Memorandum of Law at 13–14, *Chronicle Books*, No. 19-CV-07913 (S.D.N.Y. Sept. 24, 2019).

128. Audible cited the *TVEyes* court's limiting principle for *Sony*, described above: that when a use enhances efficient access for users who have "acquired an entitlement to receive the content," fair use is appropriate. Memorandum of Law in Opposition to Motion for Preliminary Injunction, *supra* note 122, at 23. This argument is not compelling, as the "entitlement" that Audible (and its users) had acquired was to listen to *audio* versions of a book, not to access text versions. *Id.*

tension speaks to a larger normative problem in treating all utility-expanding technologies as fair use.

D. UTILITY-EXPANDING FAIR USE: NORMATIVE TENSIONS

Understanding the normative implications of the rise of utility-expanding fair use requires a deeper inquiry into a topic of frequent discussion among intellectual property scholars: why fair use should exist to begin with. While most scholars agree that fair use must sometimes be employed, there is significant disagreement about when a fair use finding should occur and how, generally, the doctrine should relate to the overall goals of the U.S. copyright system.

One influential theory argues that fair use should function as a limited tool for correcting market failures resulting from transaction costs, especially the difficulty or general unfeasibility of creating a licensing arrangement.[129] If and when a use cannot come about through conventional licensing markets because of transaction costs barriers, the fair use doctrine can step in and allow it to occur.[130]

The transaction costs remediation theory of fair use has become less influential in recent years, especially as commentators have noted that its logic does not support many of the transformative use cases in which licensing markets were feasible but uses were nonetheless deemed fair.[131] Instead, many scholars now conceive of the doctrine as operating to fine-tune the policy agenda that underlies copyright: to increase social welfare by incentivizing the creation of creative works.[132]

As many have noted, because this goal stems from notions of allocative efficiency—that, in the absence of copyright protection, creative goods will be underproduced—it is important to account for the inefficiencies that also come from providing exclusive rights in

129. *See* Ben Depoorter & Francesco Parisi, *Fair Use and Copyright Protection: A Price Theory Explanation*, 21 INT'L REV. L. & ECON. 453 (2002).

130. *Id.* at 455 (explaining that under this theory, "the fair-use doctrine effectively 'reallocates' ownership rights in order to minimize the negative efficiency consequences of positive transaction costs in the market"). The transaction costs theory is often attributed to Wendy Gordon, though Gordon has frequently challenged that her theory should be limited *only* to transaction costs-based market failures. *See* Wendy J. Gordon, *Excuse and Justification in the Law of Fair Use: Transaction Costs Have Always Been* Part *of the Story*, 50 J. COPYRIGHT SOC'Y U.S.A. 149, 190 (2003); 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, 1613 (1982).

131. Abraham Bell & Gideon Parchomovsky, *The Dual-Grant Theory of Fair Use*, 83 U. CHI. L. REV. 1051, 1066–69 (2016) (discussing the decline of this theory).

132. *See supra* notes 22–23 and accompanying text.

otherwise nonexcludable works of information.[133] In particular, the fact that copyright owners are able to artificially price higher than marginal cost will exclude certain users from the market, generating a deadweight loss.[134] Copyright may also sometimes frustrate its own goals by preventing future creators from using existing works to create new works.[135] According to some, fair use exists to allow for balancing between these competing inefficiencies, creating better allocative efficiency by allowing uses to go forward when the financial incentives that would be allowed for by a market-based approach are low but the losses to society stemming from restricted access are high.[136] A similar theory treats fair use as a tool for ensuring that the "spillovers," or positive externalities, generated by uses of copyright goods can occur.[137] Under this theory too, fair use invites courts to balance between the value of these spillovers and the potential loss to copyright's incentive function that would occur through allowing uncompensated use.[138]

These theories share in common a commitment to treating fair use as intrinsically tied to the policy goals that justify copyright's exclusive rights rather than as a limited exception to be applied only in the case of a transaction costs-based market failure. By providing space for balancing between the social gains allowed for by access and the need to incentivize creative works, the doctrine can fine-tune these policy goals on a case-by-case basis.

The idea of transformative use corresponds well to a conception of fair use that focuses on finding balance in copyright's competing policy goals and mitigating the social costs that can be generated by recognizing exclusive rights in creative works.[139] The conception of

133. *See generally* YOCHAI BENKLER, THE WEALTH OF NETWORKS: HOW SOCIAL PRODUCTION TRANSFORMS MARKETS AND FREEDOM 35–37 (2006).

134. *See id.* at 36.

135. *Id.* at 35–37; *see also* Balganesh, *supra* note 1, at 1578.

136. William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659, 1714–15 (1988); Glynn S. Lunney, Jr., *Fair Use and Market Failure:* Sony *Revisited*, 82 B.U. L. REV. 975, 1030 (2002).

137. *See* Brett M. Frischmann & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257, 288–89 (2007) ("Many paradigmatic uses deemed fair involve use of a work to engage in activities that yield diffuse, small-scale spillovers to a community.").

138. *Id.* at 289–90 ("Courts ask whether the defendant's use leads to a substitute expression that will compete directly with the original work being used without permission or, alternatively, with derivatives of the original. To the extent that substitution is likely, there is likely a greater impact on incentives, and this is a social cost to deeming the use fair. If market substitution is unlikely, however, the risk to incentives is smaller.").

139. Netanel, *supra* note 39, at 736 ("The transformative use paradigm views fair

transformative use embraced by *Campbell* ensures that copyright owners are unable to block new works of creative expression when the threat of market harm—and by extension the threat to copyright's incentive function—is low.[140] As *Campbell* explained, some works can "provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one."[141] Allowing such works to occur without compensating the copyright owner ensures "breathing space within the confines of copyright."[142] This traditional form of transformative use is welfare-enhancing in that it essentially prevents copyright from undermining its own incentivization goal; it ensures that authors can only claim compensation in markets for their work rather than engaging in demands for licensing revenue that overly stifles the creativity of others.[143]

Utility-expanding fair use appears to be based on a different conception of copyright's policy agenda, one in which copyright's incentive function needs to be actively weighed against the public's *general* interest in accessing creative works irrespective of whether the work is being used in new creation.[144] As many of these fair use cases recognized, it makes sense to treat utility-expanding uses as socially valuable even though these uses do not produce new expressive content. *Authors Guild v. Google* explained that the "primary intended beneficiary [of copyright] is the public, whose access to knowledge copyright seeks to advance."[145] While "providing rewards for authorship" that incentivize the creation of new works is the primary way the public interest is served, "giving authors *absolute* control over all copying from their works would tend in some circumstances to limit, rather than expand, public knowledge."[146] As *Sony* also recognized, technological tools that "expand[] public access" to existing content "yield[] societal benefits"[147] and thus must also be weighed against the

use as integral to copyright's purpose of promoting widespread dissemination of creative expression, not a disfavored exception to copyright holders' exclusive rights.").

140. *See supra* Part I.A.

141. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 580 (1994).

142. *Id.* at 579.

143. *See supra* notes 52–53 and accompanying text.

144. *See generally* Jacob Victor, Copyright's Law of Dissemination (unpublished manuscript) (on file with author) (exploring these normative goals in more detail).

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

146. *Id.* at 212–13 ("Each factor thus stands as part of a multifaceted assessment of the crucial question: how to define the boundary limit of the original author's exclusive rights in order to best serve the overall objectives of the copyright law to expand public learning while protecting the incentives of authors to create for the public good.").

147. Lunney, *supra* note 136, at 982 (citation omitted).

importance of authors' incentives.[148] These arguments are roughly consistent with the welfare-enhancing scholarly account of fair use described above. By aiding the development of socially valuable spillovers or expanding ease of access (and reducing deadweight loss), these uses also enhance welfare, even though no new creative works are generated.[149]

At the same time, recognizing the value of utility-expanding technologies from the perspective of copyright's policy agenda also may explain why fair use can be an imperfect vehicle for allowing these uses to flourish. As explained above, the traditional conception of transformative use is able to account for both sides of copyright's balancing act: by only allowing new creative uses that transform both purpose and content—such as a parody or history book—this version of the doctrine ensures that creators receive a financial incentive to produce new works only until the point is reached that their potential licensing markets would frustrate others' new and culturally valuable creative enterprises.[150] Because the new use generates a creative work that operates in a market distinct from the original (and its traditional/reasonable derivatives), courts seem to believe that finding the use non-market-harming would pose no threat to copyright's

148. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 454 (1984); *see also* Lunney, *supra* note 136, at 992–94 (arguing that *Sony* supports reading fair use as balancing between the "competing public interests" of access and incentives).

149. An assumption here is that traditional, market-based licensing between copyright owners and new disseminators may not always be able to effectuate these aims. While a full discussion of why licensing markets can fail is outside the scope of this Article, there are numerous reasons why copyright owners might refuse to license or use their market position to demand exorbitantly high royalties. Some copyright owners simply seek to take advantage of their market position to extract the maximum amount of royalties they can receive. *See* Victor, *supra* note 14, at 977–82 (discussing market power and holdup problems in copyright licensing). Others may refuse to license to try to bankrupt companies that use new forms of dissemination technology so that they can enter the market themselves. Copyright owners may sometimes overcharge or refuse to license even when faced with evidence that a new technology will actually expand copyright owners' markets and revenue sources. The reasons here are complex, but one powerful explanation is that copyright owners, especially those invested in established forms of dissemination (e.g., paper books, CD sales) often suffer from an "Innovator's Dilemma" that causes them to privilege incumbent forms of dissemination over new forms. *See* Michael A. Carrier, *Copyright and Innovation: The Untold Story*, 2012 WIS. L. REV. 891, 927 (exploring this phenomenon in the music marketplace). Copyright owners may also irrationally overvalue their works due to a form of endowment effect that some have called a "creativity effect." *See* Christopher Buccafusco & Christopher Jon Sprigman, *The Creativity Effect*, 78 U. CHI. L. REV. 31 (2011) (describing how creators overvalue their work substantially more than potential buyers).

150. *See supra* Part I.A.

incentive function.[151] In contrast, a utility-expanding use often poses more threat to the copyright owner's primary dissemination markets (or closely related derivative markets).[152]

As with the case of expressive transformative use,[153] delineating the licensing markets that should or should not be within the purview of the copyright owner essentially amounts to normative line drawing, factoring in the balance between copyright's incentive function and the value of public access. In cases where a use is primarily providing information about existing works, courts seem comfortable allowing for fair use, even if the public is receiving some limited access to the underlying copyrighted works (as with *Google Books*).[154] The assumption here seems to be that the social value of the utility-expanding use outweighs lost licensing revenue to the copyright owner, especially since the primary dissemination markets for the underlying work are mostly unaffected by the new use. In contrast, when a use enhances efficient use of content but, in so doing, provides a high degree of access to that content (as with *TVEyes*)[155] courts seem to find that the benefits of the technology cannot alone warrant fair use. To provide this type of use with what is essentially a free license would be to overcompensate for copyright's social costs at the expense of copyright's incentive function.

But this dilemma may have more to do with the all-or-nothing nature of fair use than with anything inherent in copyright's normative agenda. Because fair use provides *no compensation* to copyright owners, only those utility-expanding uses that are both particularly socially valuable and minimally harmful to the copyright owner's primary dissemination markets warrant a fair use finding. As the next Part explores, however, copyright law also has historically employed other tools that allow for more fine-tuned balancing between authors' financial incentives and the social value of public access.[156] In particular, the compulsory licensing regime for music copyrights historically provided policy-informed licensing rates to innovative dissemination technologies like digital radio.[157] These technologies are similar to transformative-but-substitutive technologies like TVEyes, suggesting that a compulsory licensing regime may be most

151. *See supra* Part I.A.
152. *See supra* Part I.C.
153. *See supra* notes 45–51 and accompanying text.
154. *See supra* notes 61–63 and accompanying text.
155. *See supra* notes 94–95 and accompanying text.
156. *See infra* Part II.
157. *See infra* Part II.

appropriate for the utility-expanding technologies that fair use is unable to accommodate.

II. THE DIGITAL RADIO COMPULSORY LICENSE PRECEDENT

Fair use is not the only tool that copyright law employs to selectively remove a copyright owner's control over the licensing of creative works. The Copyright Act also outlines a series of compulsory licensing regimes that require rightsholders to license their works to certain types of licensors at government-set prices.[158] For example, section 118 of the Copyright Act allows public broadcasters to use certain musical works and visual works in their broadcasts if they pay a fee set by a rate-setting body called the Copyright Royalty Board.[159] As long as the broadcaster abides by the statutory formalities and pays the necessary royalty fee, it cannot be subject to liability for use of the copyrighted work, even though the copyright owner has not granted permission.[160]

In prior work, I have argued that the history of compulsory copyright licensing—and, in particular, the regime governing the use of music copyrights—evinces a concern with fine-tuning the balance between authors' incentives and public access.[161] But unlike fair use, the compulsory music licensing regime has always provided some compensation to copyright owners.[162] It has, however, occasionally departed from ostensibly market-derived rates in order to ensure that a new, access-expanding form of dissemination could flourish.[163]

This Part builds on that work to argue that the compulsory music licensing regime provides a useful model for addressing utility-expanding technologies that are transformative but too substitutive to warrant a fair use finding. The history and application of the section 114 compulsory license for the performance of sound recordings by digital radio stations provides an especially apt lens into the relationship between compulsory licensing and utility-expanding forms of dissemination. This regime was created to address concerns that, despite the importance of new forms of music dissemination, uncompensated use would be unfair to copyright owners because of the potential that digital radio would provide a substitute for records and

158. *See, e.g.*, 17 U.S.C. §§ 111, 114–118.

159. *Id.* § 118; *see also* 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.16 (2021).

160. 17 U.S.C. § 118(b)–(c).

161. Victor, *supra* note 14, at 938–65.

162. *Id.* at 921.

163. *See id.* at 943–65, 977.

CDs.[164] As a compromise, Congress created a compulsory licensing regime in which rates would be set using policy criteria that balanced between the public's interest in access and the financial needs of copyright owners.[165] In practice, rate-setting entities applied these criteria to find royalty rates for digital distributors that were at the lower end of the rates suggested by market evidence in recognition of distributors' role in expanding access to music for the public.[166]

* * *

In 1995, Congress passed the Digital Performance Right in Sound Recordings Act (DPRA),[167] which provided one of the first legislative attempts to address the complexities of applying existing copyright law to new forms of digital dissemination. Among other things, the DPRA created what is commonly called the "section 114 compulsory license," which allows certain kinds of digital disseminators of music—including satellite radio services and Internet radio services (also known as "noninteractive" streaming services)—to make use of any piece of recorded music without consent of the copyright owner for a government-set royalty fee.[168]

Some background is required to understand the full history and function of the section 114 compulsory license. The music copyright system is unusual in that the dissemination of recorded music generally implicates two separate copyrighted works: the underlying musical composition (notes, orchestration, and the like), which vests in the composer of a song, and the actual "sound recording," which vests in a recording artist.[169] Historically, only musical compositions were protected by copyright. Under this regime, the duplication or broadcast of a recorded piece of music required only the permission of the musical composition copyright owner, not the recording artist (or their record label, to whom the copyright was often assigned).[170] Congress, however, caveated musical composition copyright protection with a compulsory licensing regime created in 1909 for the creation of new music recordings.[171] This compulsory license allows any

164. *Id.* at 951–53.

165. *Id.* at 952.

166. *See id.* at 964.

167. Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, 109 Stat. 336 (codified as amended at 17 U.S.C. §§ 106, 114–115).

168. 17 U.S.C. § 114.

169. U.S. COPYRIGHT OFF., COPYRIGHT AND THE MUSIC MARKETPLACE: A REPORT OF THE REGISTER OF COPYRIGHTS 18 (2015).

170. *See generally id.* (providing an overview of this regime and its history).

171. 17 U.S.C. § 115.

recording artist to make their own "cover" of a previously recorded piece of music, without the permission of the copyright owner, for a government-set fee.[172]

Congress ultimately established copyright protection for sound recordings in 1971 legislation.[173] This legislation, however, included a significant departure from conventional copyright protection. While the new law granted protection for the duplication and sale of sound recordings, it did not cover the "public performance" of sound recordings. This right—which is a separately enumerated exclusive right for every other copyright interest[174]—generally covers instances in which a copyrighted work is performed on a single basis in public rather than copied for purposes of a sale. Importantly, the public performance right is the only right that would have been implicated by a radio broadcast of copyrighted music. Thus, under the 1971 legislation, radio stations were not required to compensate sound recording copyright owners when broadcasting music.[175]

The lack of copyright protection for radio broadcasts of recorded music was a source of ire for the record labels that generally own sound recording copyrights. Congress, however, resisted efforts to create a public performance right for sound recordings for most of the twentieth century.[176]

In the early 1990s, however, Congress became concerned with new forms of digital distribution—in particular, digital radio and streaming—and their potential to disrupt the revenue streams of record labels and other sound recording copyright owners.[177] The DPRA was the ultimate outcome. Like most copyright legislation, the DPRA was primarily a product of interest-group politics.[178] In this case,

172. *Id.*; *see also* U.S. COPYRIGHT OFF., *supra* note 169.

173. Sound Recording Act of 1971, Pub. L. No. 92-140, 85 Stat. 391.

174. 17 U.S.C. § 106(4).

175. *See generally* Sound Recording Act, 85 Stat. 391 (omitting any requirement to compensate sound recording copyright owners).

176. *See* Kristelia A. García, *Penalty Default Licenses: A Case for Uncertainty*, 89 N.Y.U. L. REV. 1117, 1135 (2014) (discussing lobbying efforts by broadcasters and musical composition copyright owners); W. Jonathan Cardi, *Über-Middleman: Reshaping the Broken Landscape of Music Copyright*, 92 IOWA L. REV. 835, 849 (2007) (discussing lobbying efforts by groups such as radio broadcasters and music publishers).

177. S. REP. NO. 104-128, at 10 (1995) ("The purpose of S. 227 is to ensure that performing artists, record companies and others whose livelihood depends upon effective copyright protection for sound recordings, will be protected as new technologies affect the ways in which their creative works are used."); WILLIAM W. FISHER III, PROMISES TO KEEP: TECHNOLOGY, LAW, AND THE FUTURE OF ENTERTAINMENT 103–04 (2004).

178. *See generally* JESSICA D. LITMAN, DIGITAL COPYRIGHT 35–63, 122–40 (2006)

radio broadcasters, early online streaming services, and record labels each sought various concessions designed to bolster their industries.[179] Even recognizing that interest group lobbying was at play, however, does not mean that the ultimate legislation was devoid of efforts to effectuate copyright's policy agenda.

Indeed, the DPRA appeared to recognize a tension between transformativeness and substitutiveness that is similar to the tension displayed in the fair use cases discussed above. The DPRA Senate report explained that, on the one hand, "new digital transmission technologies may permit consumers to enjoy performances of a broader range of higher-quality recordings than has ever before been possible[,] . . . increase the selection of recordings available to consumers, and make it more convenient for consumers to [listen to music]," thus expanding and enhancing consumer access.[180] But, on the other hand, "in the absence of appropriate copyright protection in the digital environment, the creation of new sound recordings and musical works could be discouraged," thus frustrating copyright's incentive function.[181]

To address these issues, Congress chose to create a regime based on "a careful balancing of interests, reflecting . . . the recognition of the potential impact of new technologies on the recording industry."[182] This compromise position categorized radio and radio-like forms of dissemination into three groups, with different levels of public performance copyright protection for each category depending on the degree of potential market harm to copyright owners.

Uncompensated Use: Broadcast Radio. The first category included forms of dissemination that Congress determined posed little risk of substitution, which included conventional broadcast radio (otherwise known as terrestrial radio).[183] This form of distribution would continue to be exempt from paying sound recording royalties

(describing political economy of copyright legislation at various points in history).

179. FISHER, *supra* note 177.

180. S. REP. NO. 104-128, at 14.

181. *Id.*; *see also* 141 CONG. REC. S11,960 (daily ed. Aug. 8, 1995) (statement of Sen. Diane Feinstein) ("Why should the digital transmission businesses be making money by selling music when they are not paying the creators who have produced that music? If this should occur without copyright protection, investment in recorded music will decline, as performers and record companies produce recordings which are widely distributed without compensation to them.").

182. S. REP. NO. 104-128, at 15.

183. Internet radio services that do not charge subscription fees were also included in this category. *Id.* at 16. But these types of services were later placed under the compulsory licensing regime by the Digital Millennium Copyright Act of 1998, Pub. L. No. 105-304, 112 Stat. 2860.

to copyright owners. Congress cited the predominant reasons that terrestrial radio had traditionally been excused from paying royalties to sound recording copyright owners: that, by providing "airplay and other promotional activities" to recording artists, terrestrial radio does not compete with album sales and, in fact, often improves such sales.[184] The scarcity of radio spectrum, which limits the number of broadcast stations that can be active at one time, may have also played a role in this calculus.[185] In light of these arguments, Congress concluded that radio "often promote[s], and appear[s] to pose no threat to, the distribution of sound recordings."[186] Commentators disagree as to whether there is any true empirical basis to the conclusion that terrestrial radio does not threaten sound recording sales.[187] Nonetheless, this assumption provides grounding for the idea—later seemingly embraced in the utility-expanding fair use cases—that more minor evidence of market harm is not enough of a reason to force a valuable, access-expanding form of dissemination to pay royalties.[188]

Market-Licensed Use: Streaming. The second category included forms of dissemination that "are most likely to have a significant impact on traditional record sales," which Congress determined included "interactive" streaming services.[189] These services—which include, for example, the premium version of Spotify—allow a user to stream a song on request. Though such technology was only hypothetical at the time of the DPRA, Congress appeared to believe that on-demand streaming would pose the greatest risk of substitution for sound recording sales.[190] Accordingly, Congress granted sound recording

184. S. REP. NO. 104-128, at 14–15; FISHER, *supra* note 177, at 103 (explaining the reasons Congress has generally declined to recognize a public performance right for sound recordings with respect to terrestrial radio).

185. *See* Randal C. Picker, *Copyright as Entry Policy: The Case of Digital Distribution*, 47 ANTITRUST BULL. 423, 458–60 (2002) ("Pre-Net, the radio spectrum determined the number of possible radio stations, and the fixed number of radio stations set the competitive landscape that in turn drove the resulting amount of musical diversity.").

186. S. REP. NO. 104-128, at 15. The fact that terrestrial radio's operation is limited by FCC regulation also contributed to Congress's reasoning that it posed less of a threat to music sales than digital forms of distribution. *See* 2 NIMMER & NIMMER, *supra* note 159, § 8.21 n.72.

187. *Compare* García, *supra* note 176, at 1135–36, *with* Picker, *supra* note 185, at 458.

188. *See supra* Part I.C (discussing cases like *Google Books*, where some market substitution was present but the court nonetheless found fair use); *infra* Part III.A (explaining the importance of maintaining a zero-royalty category for some utility-expanding technologies).

189. S. REP. NO. 104-128, at 16.

190. *Id.* at 14 ("Trends within the music industry, as well as the telecommunications and information services industries, suggest that digital transmission of sound

copyright owners full copyright protection with respect to interactive streaming services, requiring the services to receive a market-negotiated license from sound recording copyright owners.[191]

Compulsorily Licensed Use: Digital Radio. The third category included what is now known as "noninteractive" streaming services, which essentially provide digital delivery (via Internet, cable, or satellite) of songs in a manner in which users cannot select songs on an individual basis.[192] Satellite radio services, like Sirius, and Internet radio stations (or "webcasters"), like the original version of Pandora, are classic examples of such services. Congress appeared to view these services as occupying a middle ground between (allegedly) non-substitutive terrestrial radio and (allegedly) highly substitutive interactive streaming.[193] Accordingly, Congress established a compulsory licensing regime—the section 114 license—to provide noninteractive services with licenses for sound recording copyrights.[194] Congress also established that the compulsory rates would be determined every five years, either by industry-wide settlements or via a rate-setting

recordings is likely to become a very important outlet for the performance of recorded music in the near future. Some digital transmission services, such as so-called 'celestial jukebox,' 'pay-per-listen' or 'audio-on-demand' services, will be interactive services that enable a member of the public to receive, on request, a digital transmission of the particular recording that person wants to hear.").

191. *Id.* at 16. For a critique of this reasoning and an argument that interactive streaming would be better served by a compulsory licensing approach, see Victor, *supra* note 14.

192. 17 U.S.C. § 114(j)(8); S. REP. NO. 104-128, at 36. The DPRA originally included only "subscription" services, but non-subscription services were added to this category by the Digital Millennium Copyright Act.

193. *See* Determination of Royalty Rates and Terms for Ephemeral Recording and Webcasting Digital Performance of Sound Recordings (Web IV), 81 Fed. Reg. 26,316, 26,334 (May 2, 2016) (to be codified at 37 C.F.R. pt. 380) (noting that in the DPRA and later statutes, "[c]opyright owners were provided a limited performance right with regard to the use of their sound recordings by noninteractive services—something less than the purely private market-based rate for interactive use, but clearly more than the 'zero rate' required from terrestrial radio"); FISHER, *supra* note 177, at 104–05. Some claim that the line between terrestrial radio and digital radio is arbitrary, especially considering that Congress's primary reason for exempting terrestrial radio from royalty payments is the role of these services in promoting new music. Digital radio arguably provides even more promotional value. *See* García, *supra* note 176, at 1135–36, 1135 n.70. Others, however, note that digital radio's ability to create tailored listener experiences (enabled primarily by its lack of spectrum-based limitations) makes digital radio more substitutive of music sales than terrestrial radio. *See* Picker, *supra* note 185, at 458. In any case, even if this distinction is grounded in specious empirics, that does not necessarily destroy its value in conceptualizing the different policy goals at stake when substitutive utility-expanding technologies make use of copyright works. *See supra* note 188 and accompanying text.

194. 17 U.S.C. § 114(d)–(f); FISHER, *supra* note 177, at 104.

proceeding before a Copyright Arbitration Royalty Panel (CARP), later replaced by the body known today as the Copyright Royalty Board (CRB), reviewable by the Register of Copyrights and ultimately by the D.C. Circuit.[195]

This third category appears to implicate similar policy concerns as the transformative-but-substitutive technologies described in the preceding section. The Register of Copyrights, in her review of the first CARP section 114 rate-setting proceeding, noted that the section 114 license was designed to allow the flourishing of transformative technologies, like digital radio, that "creat[e] and expand[] the market for the performance of the sound recording in a digital technological environment" but, in so doing, risked some market harm to copyright owners.[196] "By its very nature, the section 114 license contemplates weighing" the value of access-enhancing technologies against the need for authors' financial incentives.[197]

The rate-setting criteria set by the DPRA for the new section 114 license further emphasized the need for balancing between copyright's competing policy goals when addressing transformative-but-substitutive technologies. In setting rates, the CARP was instructed to utilize rate-setting criteria that had previously been outlined in the 1976 Copyright Act for other music compulsory licenses.[198] The criteria, known as the 801(b) objectives, instructed regulators

> (A) To maximize the availability of creative works to the public;
>
> (B) To afford the copyright owner a fair return for his creative work and the copyright user a fair income under existing economic conditions;
>
> (C) To reflect the relative roles of the copyright owner and the copyright user in the product made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost, risk, and contribution to the opening of new markets for creative expression and media for their communication;
>
> (D) To minimize any disruptive impact on the structure of the industries involved and on generally prevailing industry practices.[199]

In practice, rate-setting entities implemented these factors by, first, using marketplace evidence (such as licensing arrangements from analogous markets) to determine a range of hypothetical rates that

195. S. REP. NO. 104-128, at 29.

196. Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings, 63 Fed. Reg. 25,394, 25,408 (May 8, 1998) (to be codified at 37 C.F.R. pt. 260).

197. *Id.*

198. Specifically, the factors noted in note 199 *infra* were used to set rates for the section 115 compulsory license, governing the use of musical composition copyrights by recording artists.

199. 17 U.S.C. § 801(b)(1).

might prevail between licensors and licensees in an unregulated market and, second, choosing a specific rate (either within the range of marketplace rates or outside of it) that would best realize the statutory factors.[200]

The 801(b) objectives are unusual in that they do not instruct regulators to attempt to mimic prevailing market rates when setting compulsory license royalties;[201] market evidence, to the extent employed, is merely used to jumpstart the rate-setting inquiry.[202] Rather than attempt to mimic free markets, the factors are designed, at least in part, to effectuate copyright's public-facing policy agenda—namely to "maximize the availability of creative works to the public."[203] Moreover, they seem to recognize the potential tension between the importance of financial incentives for copyright owners and the value of new dissemination technologies in enhancing and expanding access ("opening of new markets for creative expression and media for their communication")[204] and thus invite regulators to balance between the "relative roles" of creators and disseminators in providing the public with creative works.

Indeed, in the first section 114 digital radio proceeding, the CARP interpreted the 801(b) objectives as requiring "a rate toward the low end of [the] range" suggested by the marketplace evidence, i.e., one favorable to the digital radio services.[205] The CARP found that both the first and third 801(b) factors—which reference the goal of making music available to the public—supported this conclusion. For the first factor, in order "[t]o maximize the availability of creative works to the public . . . the rate should be set on the low side. A lower rate will hopefully ensure the Services' continued existence and encourage competition so that the greatest number of recordings will be exposed to the

200. Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings, 63 Fed. Reg. at 25,396.

201. *See* Recording Indus. Ass'n of Am. v. Libr. of Cong., 176 F.3d 528, 533 (D.C. Cir. 1999) ("Section 801(b)(1) requires only that arbitration panels set 'reasonable copyright royalty rates.' The statute does not use the term 'market rates,' nor does it require that the term 'reasonable rates' be defined as market rates.").

202. Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings, 63 Fed. Reg. at 25,404 ("When setting the rates for the statutory performance license in sound recordings, the benchmarks are merely the starting point for establishing an appropriate rate. The deciding body uses the appropriate marketplace analogies, in conjunction with record evidence, and with regard for the statutory criteria, to set a reasonable rate.").

203. *Id.*

204. 17 U.S.C. § 801(b)(1).

205. Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings, 63 Fed. Reg. at 25,405.

consumers."[206] With respect to the third factor, the CARP explicitly weighed the copyright owners' role in actually "creat[ing] . . . the sound recording" against the services' role in "enhanc[ing] the presentation of the final work through unique programming concepts" and "the technological developments made by the Services in opening a new avenue for transmitting sound recordings to a larger and more diverse audience."[207] The CARP found that this factor also warranted a lower rate for the services.[208] While the Register of Copyrights, reviewing the decision, disagreed with the CARP's interpretation of the first factor, she agreed with the third factor analysis and ultimately concluded that the CARP's decision to choose a low rate for the services was mostly warranted.[209]

Although the section 114 license has lost much of its efficacy over the last decades due to a series of changes to the rate-setting regime—including the replacement of the 801(b) factors with a market-mimicking standard[210]—it has generally been considered effective by industry players. Indeed, a recent report by the Copyright Office noted that the section 114 compulsory licensing system is "[o]ne of the few things that seems to be working reasonably well in our licensing system."[211] While this Article does not argue for wholesale replication of the section 114 regulatory regime in other industries, the next Part explores how the section 114 approach provides both normative clarification and a practical model when thinking about how the law should address utility-expanding technologies of dissemination that are sued for copyright infringement.

206. *Id.* at 25,406 (alteration in original) (citation omitted).

207. *Id.*

208. *Id.*

209. *Id.* at 25,409–10. The register slightly raised the CARP-chosen rate, from 5% to 6.5% of gross revenue, based primarily on objections to some of the market benchmark evidence accepted by the CARP.

210. Victor, *supra* note 14, at 948–71 (detailing the adoption of this standard, first, in the Digital Millennium Copyright Act for most digital radio services and, very recently, in the Music Modernization Act, for all industries regulated by section 114, as well as exploring problems with these changes).

211. U.S. COPYRIGHT OFF., *supra* note 169, at 175.

III. COMPULSORY LICENSING AND UTILITY-EXPANDING TECHNOLOGIES

A. THE LOGIC OF COMPULSORY LICENSING FOR TRANSFORMATIVE-BUT-SUBSTITUTIVE USES

The section 114 compulsory license is administered by a regulatory body and sets prices for recorded music ex ante on an industry-wide basis. In contrast, the utility-expanding fair use cases described above address case-by-case uses of copyright works by individual technology companies. Nonetheless, drawing these two regimes into conversation yields some interesting insights. In particular, the tripartite approach to music dissemination illustrated in the DPRA's creation of the section 114 license corresponds well to the range of utility-expanding technologies discussed in Part I. On one side of the spectrum is terrestrial radio, which, as a minimally market-harming[212] but highly access-expanding form of dissemination, was exempted from paying *any* royalties to sound recording copyright owners. Congress's reasoning for exempting terrestrial radio from royalty payments parallels the courts' increasing recognition that utility-expanding technologies that are transformative but pose little risk of market harm, like Google Books, should also be exempt from paying royalties via the fair use doctrine.[213] On the other side of the spectrum are those technologies that ostensibly pose a high risk of substitution, which the DPRA determined should pay market-negotiated royalties to copyright owners. A parallel here might be minimally transformative services, such as ReDigi, which, in essence, merely provide a platform for access to existing copyrighted music files.[214] Such minimally innovative and highly substitutive uses warranted no fair use finding and were thus subject to copyright's usual property rule-based remedies, including injunctive relief.

The DPRA's middle ground category—digital and satellite radio—presents the more interesting parallel for utility-expanding fair

212. At least according to Congress. *See supra* note 186.

213. Congress's additional emphasis on the fact that terrestrial radio ostensibly *bolsters* CD and record sales also corresponds to some proposals for how the market harm analysis in fair use should function. Jeanne Fromer and Dave Fagundes, in particular, have argued that both market harms and benefits should be considered in the fourth-factor inquiry. *See* Fromer, *supra* note 23, at 630; David Fagundes, *Market Harm, Market Help, and Fair Use*, 17 STAN. TECH. L. REV. 359, 360 (2014).

214. *See also, e.g.*, A&M Recs., Inc. v. Napster, Inc., 239 F.3d 1004, 1015–17 (9th Cir. 2001), *as revised* (Apr. 3, 2001), *aff'd*, 284 F.3d 1091 (9th Cir. 2002) (finding no fair use for Napster because "downloading MP3 files does not transform the copyrighted work" and causes "deleterious effect on the present and future digital download market").

use cases. These forms of music dissemination enhanced public access in important ways (such as by "permit[ting] consumers to enjoy performances of a broader range of higher-quality recordings than has ever before been possible [and] . . . increas[ing] the selection of recordings available to consumers, and mak[ing] it more convenient for consumers to [listen to music]"[215]) but posed some risk of harm to record labels' established markets. Similarly, as explained above, some utility-expanding technologies (such as TVEyes and VidAngel) are transformative but pose too much risk of market harm to the copyright owner to justify a fair use finding.

Recognizing this parallel points to an obvious conclusion: transformative-but-substitutive technologies like TVEyes could be better served by a compulsory licensing mechanism. Rather than a stark choice between no royalties for copyright owners or the normal range of property-rule remedies, a compulsory license would allow a court to balance between the social value offered by access-expanding technologies and the importance of ensuring that copyright owners are compensated and thus incentivized to produce new works.[216]

As scholars have noted, a compulsory license administered by a court in the context of litigation is not dissimilar to one administered ex ante by an agency—like the section 114 license.[217] Indeed, a "permitted-but-paid" alternative (or replacement) for fair use has been suggested by several scholars in past work.[218] Most notably, Jane Ginsburg has argued that fair use should be limited to uses involving "new creativity," whereas uses involving "new distribution" should be governed by a compulsory licensing framework.[219] Similarly, Mark Lemley has suggested that judges in certain close but unsuccessful fair use cases should limit remedies to reasonable licensing fees.[220]

215. S. REP. NO. 104-128, at 14 (1995).

216. Peter Menell has raised a similar argument in advocating for a compulsory license for music remixing. *See* Peter S. Menell, *Adapting Copyright for the Mashup Generation*, 164 U. PA. L. REV. 441, 511 (2016).

217. Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 829 (2007).

218. Ginsburg, *supra* note 7, at 1385–89.

219. *Id.*

220. Lemley, *supra* note 51, at 192–96. Some other commentators have suggested that fair use be *entirely* eliminated with a compulsory licensing option. *See, e.g.*, Jed Rubenfeld, *The Freedom of Imagination: Copyright's Constitutionality*, 112 YALE L.J. 1, 58 (2002) (arguing that infringement of the derivative work right should be entitled to only a damages award); Alex Kozinski & Christopher Newman, *What's So Fair About Fair Use? The 1999 Donald C. Brace Memorial Lecture*, 46 J. COPYRIGHT SOC'Y U.S.A. 513, 526 (1999) (arguing that derivative works right infringement should be limited to actual damages and disgorgement of profits).

The model of the section 114 license and the logic of many of the more recent utility-expanding fair use cases, however, suggest forms of compulsory licensing—both normatively and practically—that differ from prior proposals. In particular, Ginsburg's and Lemley's proposals rest primarily on the assumption that new forms of technology should receive a compulsory license (as opposed to a fair use finding) when a licensing market is impracticable due to transaction costs that impede free-market licensing.[221] While this transaction-costs-focused approach makes sense—and is consistent with one of the dominant, but now less influential theories of fair use, discussed above[222]—it does not necessarily recognize that compulsory licensing can itself be a tool for facilitating balance in copyright's policy agenda and that the law might consider both the social value of a new use and the potential for market harm when determining whether free use, compulsory licensed use, or market-based use is appropriate.[223] This is the logic that underlay Congress's decision to create the section 114 license[224] and is also reflected in many of the recent utility-expanding fair use cases. For example, the *Google Books* decision was premised on the assumption that fair use is appropriate when a new technology "communicates something new and different from the original or expands its utility, thus serving copyright's overall objective of contributing to public knowledge"[225] while not engaging in "significant substitutive competition" with the original.[226] Under this logic, a finding of fair use can be appropriate when a new use is socially valuable and provides low market harm, *even if a licensing market is feasible*.[227] Ginsburg,

221. Ginsburg, *supra* note 7, at 1402–13 (discussing "market malfunction" and providing examples); Lemley, *supra* note 51, at 192–96 (discussing examples of market failures, such as "when the production of a particular type of work requires clearances of so many rights, or when rights owners are so hard to find, that doing so would be uneconomic"). Ginsburg also suggests a potential role for compulsory licensing for certain "social-subsidy" uses, but limits these to non-profit and educational uses, looking especially at the fact that the Copyright Act and its legislative history singles out these types of uses for special treatment. *See* Ginsburg, *supra* note 7, at 1392–1403; *see also id.* at 1411 ("[U]nlike [a] library consortium, Google is not an [educational] institution, and it is not apparent that it requires a social subsidy of the sort that benefits nonprofit libraries.").

222. *See supra* Part I.A (describing this theory and explaining its decline).

223. *See supra* Part II.

224. *See supra* Part II.

225. Authors Guild v. Google, Inc., 804 F.3d 202, 214 (2d Cir. 2015).

226. *Id.* at 219.

227. Indeed, a class action settlement was proposed but rejected in *Google Books*. This settlement would have provided a mechanism to address any potential transaction costs issues at play while still providing compensation. Authors Guild v. Google, Inc., 770 F. Supp. 2d 666, 671 (S.D.N.Y. 2011) (describing creation of a registry to

however, seems to view a solution that would have subjected Google Books to a compulsory license as the preferred outcome.[228]

In contrast, both the section 114 example and the recent utility-expanding fair use cases suggest that it remains appropriate for certain utility-expanding uses to continue to receive a free license (via fair use) if the potential for market substitution is low.[229] As with much of fair use—including, as discussed above, the distinction between a transformative creative work and a derivative work[230]—this line drawing will be predominantly normative, with the goal of optimizing the balance between copyright's competing goals of incentives and access.[231] Some plausible licensing markets will be viewed as properly within the scope of the copyright owner's exclusive rights and others will not. One useful line (though not the only one) is those utility-expanding technologies that merely provide information about existing works rather than providing access to the underlying works. As the courts have correctly recognized, the social value of such services, like Google Books, far overwhelm the potential financial harm to copyright owners, which, because the copyright owner's primary dissemination markets remain untouched, is limited.[232]

Thus, in contrast to prior proposals, the argument advanced in this Article is that many utility-expanding uses should continue to receive what is essentially a free license, via a fair use finding, irrespective of whether a licensing market is feasible. Only those socially valuable technologies that are "efficiency-enhancing" but provide meaningful access to copyrighted works and thus threaten copyright

administer licensing payments).

228. Ginsburg, *supra* note 7, at 1412.

229. Proposals to *entirely* replace fair use—including creative uses—with a compulsory licensing regime are even more untethered from copyright's normative aims. *See* Rubenfeld, *supra* note 220; Kozinski & Newman, *supra* note 220. These proposals fail to grapple with the notion that when a creative use is transformative, it would undermine copyright's policy agenda to require licensing compensation. *See supra* Part I.

230. *See supra* notes 45–51 and accompanying text.

231. *See supra* Part II (discussing role of incentives/access tradeoff in the creation and application of the section 114 compulsory license).

232. *See supra* Part I.D; Authors Guild v. Google, Inc., 804 F.3d 202, 224 (2d Cir. 2015). This line is also potentially grounded in copyright's idea-expression dichotomy, which limits copyright protection to the use of expressive content, rather than purely functional uses. *See* Sag, *supra* note 7, at 1630–31 ("The idea-expression distinction limits the rights of the copyright owner to the expressive elements of the author's work: in the analog context, this is achieved by simply holding that the copying of facts and ideas alone does not constitute infringement. Preserving the functional force of the idea-expression distinction in the digital context requires a slightly different application: copying for purely nonexpressive purposes, such as the automated extraction of data, should not be regarded as infringing."); *see also* Sag, *supra* note 73, at 303–14.

owners' established dissemination markets (like TVEyes) should receive a compulsory license.

Here too, however, the logic of the section 114 license suggests outcomes distinct from prior proposals. Prior arguments for compulsory license alternatives to fair use assume that plaintiffs should receive damages that attempt to mimic *market-based* prices (conceived of as the likely price that a willing licensor and licensee would have negotiated).[233] This approach makes sense if the primary goal of a compulsory license is remedying market failures related to prohibitively high transaction costs; to effectuate such a goal, the court should strive to find the price that would have likely prevailed if transaction costs had not impeded market transactions.[234]

However, if we take seriously the idea that a compulsory license can facilitate balance between incentives and access, simply approximating market-based rates may not always be appropriate. Indeed, the example of the section 114 license shows how royalty rate setting can itself be the locus of fine-tuning copyright's policy goals. In particular, the regime's original rate-setting criteria, the 801(b) objectives, asked regulators to find rates that rewarded rightsholders and disseminators commensurate to their role in making works available to the public, regardless of whether those rates were consistent with benchmarks such as comparable free-market licensing deals.[235]

This approach makes sense as a logical next step to the fair use transformativeness/substitutiveness inquiry. If a use is socially valuable but too substitutive to warrant uncompensated use, the next question should be whether a positive price can be found that would better reflect copyright's policy agenda, irrespective of whether that

233. *See, e.g.*, Lemley, *supra* note 51, at 196 ("[I]f the only reason the copyright owner is entitled to relief against a transformative use is because of its claim that it would have licensed the defendant for a particular fee, the copyright owner's remedy ought to be limited to that fee."); Ginsburg, *supra* note 7, at 1444 (advocating for the use of baseball arbitration in certain permitted-but-paid cases in order to push parties towards market-based rates).

234. Richard A. Posner, *Transaction Costs and Antitrust Concerns in the Licensing of Intellectual Property*, 4 J. MARSHALL REV. INTELL. PROP. L. 325, 328 (2005) (explaining that a liability rule imposed to remedy transaction costs should attempt to find "the equivalent of the contract price [as] distinct from the transaction costs"); *cf.* Tom W. Bell, *Fair Use Vs. Fared Use: The Impact of Automated Rights Management on Copyright's Fair Use Doctrine*, 76 N.C. L. REV. 557, 559 (1998) (arguing how and why automated rights management technology should come to replace most fair uses and allow uses previously blocked by transaction costs to receive market licenses); Robert P. Merges, *The End of Friction? Property Rights and Contract in the "Newtonian" World of On-line Commerce*, 12 BERKELEY TECH. L.J. 115, 132 (1997) (same).

235. *See supra* notes 198–209 and accompanying text.

price would be the same as willing licensors and licensees might have negotiated in the open market. In addition to the social value of the new use, the stage of development of the new dissemination industry (and, relatedly, the costs of innovating therein, as well as the desirability of maintaining low barriers to entry) are other factors that might justify a departure downward from the rates suggested by market benchmarks.[236]

The next Section outlines how this analysis suggests various limitations on remedies in cases where a technology is plausibly expanding utility but too market-harming to warrant a fair use finding. Judicial discretion over injunctive relief and actual damages awards could potentially allow for courts to craft compulsory royalty obligations that take into account the social value of the new utility-expanding use. The mandatory nature of statutory damages in copyright poses a greater challenge, but there is some indication that courts can also tailor statutory damages. While case-by-case litigation would not have an effect as far-ranging as a regulatory regime like the one that exists for music, the final Section explores how the specter of a compulsory license remedy could still encourage private licensing between rightsholders and utility-expanding technology companies at rates more reasonable than those that might otherwise occur.

B. RECOGNIZING UTILITY-EXPANDING TRANSFORMATIVENESS IN COPYRIGHT REMEDIES

Fair use functions in practice as an affirmative defense to liability.[237] If a fair use defense is successful, that is the end of the inquiry and the defendant is exempt from liability.[238] However, if a fair use defense is unsuccessful and a court determines that infringement has occurred, the defendant is usually subject to the full range of copyright remedies: injunctive relief, as well as actual damages and profits or statutory damages.[239]

This Section proposes that if a defendant's fair use defense points to utility-expanding transformativeness but is ultimately unsuccessful because of concerns over market harm, then limits should be placed on copyright remedies. Rather than imposing copyright's normal

236. *See supra* notes 198–209 and accompanying text (discussing application of 801(b) policy objectives in first section 114 compulsory license rate-setting proceeding); *see also* Victor, *supra* note 144 (outlining criteria that has informed regulatory approaches to copyright dissemination markets).

237. 4 NIMMER & NIMMER, *supra* note 159, § 13.05.

238. *Id.*

239. *Id.*

range of property-rules-based remedies, judges should attempt to craft a compulsory license remedy. Furthermore, the price imposed should explicitly account for the utility-expanding transformativeness of the new use.

Legislative change to copyright law would be the most straightforward way to allow for a compulsory license alternative in transformative-but-substitutive fair use cases. However, judicial discretion over copyright remedies might allow such an approach to be implemented even within the current copyright remedial landscape. The remainder of this Section outlines how this might work in practice.

1. Fair Use as a Pre-Remedies Inquiry

It is important to note that the argument here is not that fair use be entirely replaced with a compulsory licensing regime for utility-expanding technologies; in situations where the four-part fair use test is satisfied, there is no reason why a copyright owner should be entitled to any monetary award.[240]

There are three important reasons to maintain the fair use analysis as a threshold inquiry, even for utility-expanding technology cases. The first reason is normative. If, as the previous Parts suggested, compulsory licensing can be conceived of as occupying the middle ground of a spectrum of uses—those that are socially beneficial and non-substitutive, to those that are socially beneficial and substitutive, to those that are not particularly beneficial and substitutive—then it is important to maintain the option for zero-price use. Fair use does just that; if a use expands utility without creating significant market harm, then there is no reason a copyright owner should be able to profit off of this use via a compulsory licensing fee.

As discussed above, one reasonable line here is that those uses that only provide information about existing works (like a search tool) should continue to receive a fair use finding.[241] Maintaining fair use in its current form ensures that copyright will not overly privilege copyright owner compensation (and its incentive function) over the social value of technologies that provide functional enhancements to the public's use of works.[242]

The second reason is practical. Rate setting is a complex and time-consuming enterprise, and many believe that judges are ill equipped

240. *See supra* Parts I–II (explaining that non-substitutive uses are not required to pay a royalty since they pose less risk of undermining copyright's incentive function).

241. *See supra* notes 229–32 and accompanying text.

242. *See supra* notes 229–32 and accompanying text.

to do it well.[243] This is one of the reasons some believe fair use evolved as a yes-or-no question.[244] Maintaining fair use as the initial inquiry will allow judges to dispose of cases without proceeding to time-consuming damages inquiries. This would also make it more likely that judges will err on the side of granting fair use in close cases. Indeed, most utility-expanding uses are at least somewhat substitutive. The snippet view in *Google Books* presents a good example.[245] The decision recognized that

> the snippet function can cause *some* loss of sales. There are surely instances in which a searcher's need for access to a text will be satisfied by the snippet view, resulting in either the loss of a sale to that searcher, or reduction of demand on libraries for that title, which might have resulted in libraries purchasing additional copies.[246]

The court, however, recognized that *some* market substitution does not necessarily mean that compensation is appropriate or necessary, especially when the likely market harm is not "meaningful or significant" and the new use is particularly socially valuable.[247] Maintaining fair use as a threshold inquiry would ensure that courts take heed of this warning before proceeding to a damages inquiry.

A final reason is also practical. The fair use inquiry is useful in that it crystalizes the normative stakes at issue in a utility-expanding fair use case, allowing a court to grapple with the social value of the new use (predominantly via the first factor) and the market harm to the copyright owner and, by implication, the potential harm to copyright's incentive function (predominantly via the fourth factor). Even if fair use is rejected, ensuring that courts lay out these competing priorities will make it more likely that the ultimate damages award is reasonable and reflects the competing copyright goals at stake, as described further below.[248]

243. *See* discussion *infra* Parts III.B.3, III.C.

244. *See* Gordon, *Fair Use as Market Failure*, *supra* note 130, at 1623.

245. Authors Guild v. Google, Inc., 804 F.3d 202 (2d Cir. 2015) (considering whether the snippet function in Google Books constituted fair use).

246. *Id.* at 224.

247. *Id.* ("But the possibility, or even the probability or certainty, of some loss of sales does not suffice to make the copy an effectively competing substitute that would tilt the weighty fourth factor in favor of the rights holder in the original. There must be a meaningful or significant effect 'upon the potential market for or value of the copyrighted work.'" (quoting 17 U.S.C. § 107(4))). A similar logic was potentially at play in Congress's decision to provide free use to terrestrial radio services in the DPRA. There are, of course, some users who treat radio as an alternative to purchasing albums. But Congress nonetheless determined that this minimal market harm did not warrant subjecting radio stations to either compulsory license-based fees or market-based fees. *See supra* notes 183–88 and accompanying text.

248. *See infra* Part III.B.3.

2. No Injunctive Relief

If, however, a use is utility-expanding but too market-harming to warrant fair use, the policy inquiry should shift to the remedies context. Here, judges may have some discretion to craft what is essentially a compulsory license that reflects the balance between transformativeness and substitutiveness. Doing so would first and foremost require judges to decline to grant injunctive relief.

An injunction barring future use of a copyrighted work is a common remedy in copyright infringement cases. A close but ultimately unsuccessful fair use defense is not generally a bar to injunctive relief. TVEyes, for example, was enjoined from allowing their users to download clips of the plaintiffs' copyrighted works.[249]

But despite the frequency of injunctions in intellectual property disputes, the Supreme Court in *eBay v. MercExchange* made clear that injunctive relief is not mandatory in patent cases and that the decision "whether to grant or deny injunctive relief rests within the equitable discretion of the district courts."[250] Instead, courts must apply the conventional four-factor test for injunctive relief: irreparable injury, insufficiency of monetary damages, balance of the hardships, and the public interest.[251] The lower courts extended this holding to copyright infringement claims.[252] While *eBay* by no means eliminated injunctive relief in intellectual property disputes, its influence has been widely felt. Courts now more carefully weigh the competing equities before granting injunctive relief[253] and often determine that a damages award alone would be sufficient.[254]

Thus, there would be no barrier for a judge, in her discretion, to decline to grant preliminary or permanent injunctive relief in transformative-but-substitutive use cases and instead award only damages. Considering, in particular, the likely adequacy of a pure damages remedy,[255] as well as the public's interest in being able to take

249. Fox News Network LLC v. TVEyes, Inc., No. 13 Civ. 5315, 2015 WL 8148831, at *1 (S.D.N.Y. Nov. 6, 2015).

250. eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 394 (2006).

251. *Id.* at 391.

252. *See, e.g.*, Salinger v. Colting, 607 F.3d 68, 80 (2d Cir. 2010).

253. *See, e.g.*, Flexible Lifeline Sys., Inc. v. Precision Lift, Inc., 654 F.3d 989, 998–1000 (9th Cir. 2011) (discussing cases in other circuits).

254. *See, e.g.*, Perfect 10, Inc. v. Google, Inc., 653 F.3d 976, 982 (9th Cir. 2011).

255. *See* Williams v. Bridgeport Music, Inc., No. LA CV13 06004, 2015 WL 4479500, at *40 (C.D. Cal. July 14, 2015) (declining to grant injunctive relief because of adequacy of monetary damages), *aff'd in part, rev'd in part on other grounds sub nom.* Williams v. Gaye, 885 F.3d 1150 (9th Cir. 2018), *and superseded by* 895 F.3d 1106 (9th Cir. 2018).

advantage of innovative forms of dissemination,[256] such a finding would be consistent with the four-factor test for injunctive relief. Indeed, this approach is plausibly consistent with the Supreme Court's understanding of fair use. The *Campbell* decision recognized the "goals of the copyright law . . . are not always best served by automatically granting injunctive relief" when a use is "beyond the bounds of fair use."[257] Several commentators have also raised similar arguments.[258]

3. Actual Damages as a (Policy-Informed) Reasonable Royalty

A victorious copyright infringement plaintiff is entitled to recover both actual damages and profits, though a separate award of profits is only permissible if profits have not already been "taken into account in computing the actual damages."[259] These inquiries can consider indirect evidence of the plaintiff's lost sales[260] and/or an accounting of the defendant's gross receipts in order to ascertain its profits.[261]

As this can be a difficult and subjective enterprise, courts across the country have found that "where the infringer could have bargained with the copyright owner to purchase the right to use the work," actual damages should reflect a royalty fee based on the fair market value of the work.[262] This method of calculating damages

256. *Cf.* Abend v. MCA, Inc., 863 F.2d 1465, 1479 (9th Cir. 1988), *aff'd sub nom.* Stewart v. Abend, 495 U.S. 207, 210 (1990) (finding that the public interest factor did not warrant injunctive relief in part because "an injunction could cause public injury by denying the public the opportunity to view a classic film for many years to come").

257. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 578 n.10 (1994); Infinity Broad. Corp. v. Kirkwood, 150 F.3d 104, 111 (2d Cir. 1998) (endorsing this idea in a proto-utility-expanding fair use case); *see also* Leval, *supra* note 31, at 1133.

258. Samuelson, *supra* note 7, at 862–63 ("One welcome doctrinal development for the future of fair use would be for courts to finally take the Court's endorsement of compensation instead of injunctions in just-over-the-line fair use cases."); Leval, *supra* note 31, at 1133 ("When a court rejects a fair use defense, it should deal with the issue of the appropriate remedy on its merits. The court should grant or deny the injunction *for reasons*, and not simply as a mechanical reflex to a finding of infringement."); 4 NIMMER & NIMMER, *supra* note 159, § 14.06 (arguing that courts should not enjoin particularly creative derivative works, even if these works are infringing); *cf.* Universal City Studios, Inc. v. Sony Corp. of Am., 659 F.2d 963, 976 (9th Cir. 1981), *rev'd*, 464 U.S. 417 (1984) (suggesting the possibility of a "continuing royalty," rather than an injunction, in a close fair use case).

259. 17 U.S.C. § 504(b).

260. 4 NIMMER & NIMMER, *supra* note 159, § 14.02.

261. *Id.* § 14.03. In this inquiry, the defendant has the burden of showing what elements of its total profits were attributed to factors other than the infringement.

262. Jarvis v. K2 Inc., 486 F.3d 526, 533 (9th Cir. 2007); *see, e.g.*, Deltak, Inc. v. Advanced Sys., Inc., 767 F.2d 357, 360–62 (7th Cir. 1985); Bruce v. Wkly. World News, Inc., 310 F.3d 25 (1st Cir. 2002); On Davis v. Gap, Inc., 246 F.3d 152 (2d Cir. 2001); Polar Bear Prods., Inc. v. Timex Corp., 384 F.3d 700 (9th Cir. 2004); Thoroughbred

parallels the "reasonable royalty" damages analysis used in patent infringement cases.[263] The Second Circuit has explained that a reasonable royalty form of actual damages makes sense from the perspective of copyright law because "[a] principal objective of the copyright law is to enable creators to earn a living either by selling or by licensing others to sell copies of the copyrighted work" and, therefore, "[i]f a copier of protected work . . . proceeds without permission and without compensating the owner, it seems entirely reasonable to conclude that the owner has suffered damages to the extent of the infringer's taking without paying what the owner was legally entitled to exact a fee for."[264]

Outside the context of actual damages, it is also not unheard of for courts to act as copyright license rate-setting entities more generally. District courts in the Southern District of New York are responsible for setting license rates for musical composition public performances (discussed further below) pursuant to the antitrust consent decrees that govern the performance rights organizations ASCAP and BMI.[265] The 1976 Copyright Act also explicitly authorizes judges to set licensing rates for derivative uses of certain copyrighted works from other countries, to which U.S. copyright protection was "restored" by legislation in 1996.[266] Additionally, the Court of Federal Claims is tasked with awarding "reasonable and entire compensation" (rather than injunctive relief) when the government infringes a copyright,[267] and this compensation often takes the form of a compulsory royalty.[268]

Software Int'l, Inc. v. Dice Corp., 488 F.3d 352, 360 (6th Cir. 2007).

263. 35 U.S.C. § 284; Ga.-Pac. Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1121 (S.D.N.Y. 1970); *see also* Kevin Bendix, Note, *Copyright Damages: Incorporating Reasonable Royalty from Patent Law*, 27 BERKELEY TECH. L.J. 527, 527 (2012).

264. *On Davis*, 246 F.3d at 165. The court, however, cautioned that this analysis should inquire into "not what the owner would have charged, but rather what is the fair market value." *Id.* at 166.

265. 28 U.S.C. § 137(b)(1)(B); *see, e.g.*, *In re* Pandora Media, Inc., 6 F. Supp. 3d 317, 357 (S.D.N.Y. 2014), *aff'd sub nom.* Pandora Media, Inc. v. Am. Soc'y of Composers, Authors & Publishers, 785 F.3d 73 (2d Cir. 2015).

266. 17 U.S.C. § 104A(d)(3)(B) ("In the absence of an agreement between the parties, the amount of such [royalty] compensation [for the derivative use of the restored work] shall be determined by an action in United States district court, and shall reflect any harm to the actual or potential market for or value of the restored work from the reliance party's continued exploitation of the work, as well as compensation for the relative contributions of expression of the author of the restored work and the reliance party to the derivative work.").

267. 28 U.S.C. § 1498(b).

268. Gaylord v. United States, 678 F.3d 1339, 1343 (Fed. Cir. 2012).

All of this suggests that a court could set a royalty rate for a transformative-but-substitutive use in the context of an actual damages calculation. In the absence of an injunction, the damages award could also take the form of an *ongoing* royalty. Indeed, ongoing royalties are more frequently ordered in patent infringement cases, which have acknowledged that they are akin to a compulsory license.[269] But courts also sometimes order ongoing royalties in copyright infringement cases, most notably in the recent "Blurred Lines" infringement case, in which the court set a "running royalty" rather than awarding injunctive relief.[270]

The question then arises: in the utility-expanding technology context, how should a royalty rate be calculated? Ongoing royalty damages awards are often designed to mimic "what a willing buyer would have been reasonably required to pay to a willing seller for plaintiffs' work"[271] through an inquiry into "fair market value" based on objective marketplace evidence.[272] But the 801(b) policy-oriented approach to compulsory license rate setting, previously used by the music regime described above, is an example of an alternative approach to a pure market-benchmark inquiry.[273]

A policy-focused approach to rate setting could potentially be replicated here in order to better tailor the damages awards to the normative concerns identified in the fair use analysis, i.e., that the defendant had successfully shown the social value of its new technology (and satisfied the transformativeness requirement), even if it had not successfully argued fair use.[274] The 801(b) approach to music rate setting provides a useful set of guiding principles. First, a court should look to marketplace evidence to determine a range of plausible royalty

269. Paice LLC v. Toyota Motor Corp., 504 F.3d 1293, 1314 (Fed. Cir. 2007); *see, e.g.*, Finisar Corp. v. DirectTV Grp., No. 05-CV-264, 2006 WL 2037617, at *1–2 (E.D. Tex. July 7, 2006) (setting a $1.60 compulsory royalty for every manufactured infringing device); *see also Gaylord*, 678 F.3d at 1343 (noting that the lack of injunctive relief for government use of a copyright creates what is "essentially a compulsory, non-exclusive license on the plaintiff's copyright").

270. *See* Williams v. Bridgeport Music, Inc., No. LA CV13-06004, 2015 WL 4479500, at *37 (C.D. Cal. July 14, 2015) (setting a fifty percent "running royalty"), *aff'd in part, rev'd in part on other grounds sub nom.* Williams v. Gaye, 885 F.3d 1150 (9th Cir. 2018), *superseded by* 895 F.3d 1106 (9th Cir. 2018).

271. Jarvis v. K2 Inc., 486 F.3d 526, 533 (9th Cir. 2007) (quoting Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505, 512 (9th Cir. 1985)).

272. On Davis v. Gap, Inc., 246 F.3d 152, 166 (2d Cir. 2001) ("The question is not what the owner would have charged, but rather what is the fair market value.").

273. *See supra* Part II.

274. *See supra* Part III.B.1.

rates that could have prevailed if the parties had negotiated.[275] While past licensing deals of the copyright owners could provide some evidence of market value,[276] it is more likely that a transformative-but-substitutive use will be operating in a completely new licensing market in which the copyright owner has no prior history of licensing arrangements. In this case, it would make the most sense to consider benchmark evidence from analogous licensing contexts.[277]

Second, the court could consider the array of benchmark evidence through the lens of the policy concerns identified in its prior fair use analysis and adopt a rate that accounted for the value of the new utility-expanding use weighed against its risk of harm to the copyright owners' markets. The 801(b) approach, in particular, emphasized the importance of considering the secondary user's "technological contribution, capital investment, cost, risk, and contribution to the opening of new markets for creative expression" in this analysis.[278] In practice, as explained above, regulators found that this factor often warranted choosing the lower end of the rates suggested by the benchmark evidence, especially when a new dissemination form was in its infancy or had high fixed costs.[279] This ratcheting down would also be

275. *See* Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings, 63 Fed. Reg. 25,394, 25,409 (May 8, 1998) (to be codified at 37 C.F.R. pt. 260); Mechanical and Digital Phonorecord Delivery Rate Determination Proceeding, 74 Fed. Reg. 4510, 4517 (Jan. 26, 2009) (to be codified at 37 C.F.R. pt. 385) ("[I]n determining reasonable rates, market benchmarks can be a useful starting point.").

276. *See, e.g.*, McRoberts Software, Inc. v. Media 100, Inc., 329 F.3d 557, 566–67 (7th Cir. 2003) (basing a damages award partly on past agreements between the parties); Fournier v. Erickson, 242 F. Supp. 2d 318, 337–38 (S.D.N.Y. 2003) (basing license fee on plaintiff's existing agreements).

277. Mechanical and Digital Phonorecord Delivery Rate Determination Proceeding, 74 Fed. Reg. at 4519 ("Potential benchmarks are confined to a zone of reasonableness that excludes clearly noncomparable marketplace situations."); United States v. Am. Soc'y of Composers, Authors & Publishers, 627 F.3d 64, 76 (2d Cir. 2010) ("A rate court's determination of the fair market value of the music is often facilitated by the use of benchmarks—agreements reached after arms' length negotiation between other similar parties in the industry." (quoting United States v. Broad. Music, Inc., 426 F.3d 91, 94 (2d Cir. 2005))); *cf.* Ga.-Pac. Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (considering "[t]he rates paid by the licensee for the use of other patents comparable to the patent in suit").

278. 17 U.S.C. § 801(b)(1)(C).

279. *See* Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings, 63 Fed. Reg. at 25,407; Determination of Rates and Terms for Preexisting Subscription Services and Satellite Digital Audio Radio Services, 73 Fed. Reg. 4080, 4096–98 (Jan. 24, 2008) (to be codified at 37 C.F.R. pt. 382) (explaining that when setting sound recording performance rates for satellite radio in 2008, the CRB found that 801(b) factors warranted a rate "that is lower than the upper boundary

appropriate for particularly transformative utility-expanding uses. In identifying a final rate, it might also make sense for the court to consider market power issues in the industry[280] as well as whether the use in question might actually provide some financial benefit to the copyright owners in their established markets.[281]

It is worth considering how this approach might have worked for one of the transformative-but-substitutive cases described above: *Fox News v. TVEyes*. Had the court not enjoined TVEyes's use of plaintiffs' clips, it might have crafted a continuing royalty obligation that considered benchmark evidence from analogous licensing contexts, such as news clipping services and/or news video-on-demand platforms. The court could have then chosen a final rate by considering the benchmark evidence through the lens of its transformativeness finding, namely, that TVEyes

> enables users to isolate, from an ocean of programming, material that is responsive to their interests and needs, and to access that material with targeted precision. It enables nearly instant access to a subset of material—and to information about the material—that would otherwise be irretrievable, or else retrievable only through prohibitively inconvenient or inefficient means.[282]

In light of this finding, the actual rate would likely reflect the lower end of the benchmark evidence in order to account for TVEyes's costs and risks and the value of its market-opening innovation.

4. Constraining Statutory Damages

The United States—unlike most other countries[283]—allows a victorious plaintiff to elect either actual damages or statutory

most strongly indicated by marketplace data" because of satellite radio services' technology-related expenses); *cf. Ga.-Pac. Corp.*, 318 F. Supp. at 1120 (considering "[t]he portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer").

280. *Cf. Am. Soc'y of Composers*, 627 F.3d at 76 (factoring in that "ASCAP, as a monopolist, 'exercise[s] disproportionate power over the market for music rights'" (quoting *Broad. Music, Inc.*, 426 F.3d at 96)); *In re* Pandora Media, Inc., 6 F. Supp. 3d 317, 357 (S.D.N.Y. 2014) (discounting benchmarks that were based on licensors who had used their "considerable market power to extract supra-competitive prices"), *aff'd sub nom.* Pandora Media, Inc. v. Am. Soc'y of Composers, Authors & Publishers, 785 F.3d 73 (2d Cir. 2015).

281. This is one of the reasons terrestrial radio has historically been exempted from paying royalties. *See supra* note 213 and accompanying text.

282. Fox News Network, LLC v. TVEyes, Inc., 883 F.3d 169, 177 (2d Cir. 2018).

283. Pamela Samuelson, Phil Hill & Tara Wheatland, *Statutory Damages: A Rarity in Copyright Laws Internationally, but for How Long?*, 60 J. COPYRIGHT SOC'Y U.S.A. 529, 530–32 (2013).

damages.[284] Statutory damages are, in theory, designed to account for the difficulty of proving actual damages and profits in copyright cases, as well as to provide a deterrent to infringement.[285] But they have been criticized for providing rewards to plaintiffs incommensurate with acts of infringement and for incentivizing plaintiffs to bring dubious claims.[286]

If a plaintiff elects statutory damages, she may forego an actual damages calculation and instead receive an award per infringement. Courts maintain discretion to award an amount that it "considers just," from a minimum of $750 to a maximum of $30,000 per infringed work.[287] Generally the lower end is only warranted in the case of "innocent" infringement—in which the defendant has shown that she was not aware that her actions constituted infringement—and the upper end is warranted in case of willful infringement.[288] But the amount of the award is always discretionary, regardless of a showing of innocence or willfulness,[289] and "the truth is that statutory damages fluctuate wildly."[290]

The mandatory nature of statutory damages presents the greatest challenge to implementing the proposal outlined in this Article without legislative change. If a defendant elects statutory damages, this would presumably preclude a judge from crafting an ongoing royalty obligation within the scope of the actual damages calculation, as described above. If a jury is tasked with setting statutory damages, the monetary reward is likely to veer even further away from a reasonable ongoing royalty. Indeed, in the *VidAngel* case, plaintiffs were awarded statutory damages of $62.4 million, which will likely bankrupt VidAngel.[291]

284. 17 U.S.C. § 504(c)(1). To be eligible for statutory damages, a plaintiff must register her work with the U.S. Copyright Office either three months after its publication or before the defendant's infringement begins. *See id.* § 412.

285. Ben Depoorter, *Copyright Enforcement in the Digital Age: When the Remedy Is the Wrong*, 66 UCLA L. REV. 400, 413–14 (2019).

286. *See id.* at 405; Matthew Sag & Jake Haskell, *Defense Against the Dark Arts of Copyright Trolling*, 103 IOWA L. REV. 571, 573 (2018); Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 464 (2009); Pamela Samuelson, *Statutory Damages as a Threat to Innovation*, COMMC'NS ACM, July 2013, at 24, 24–25.

287. 17 U.S.C. § 504(c)(1).

288. 4 NIMMER & NIMMER, *supra* note 159, § 14.04.

289. *Id.*

290. *Id.*

291. Gene Maddaus, *VidAngel Hit with $62.4 Million Judgment for Pirating Movies*, VARIETY (June 17, 2019), https://variety.com/2019/biz/news/vidangel-jury-verdict-damages-1203245947 [https://perma.cc/G326-EX5Y].

Legislative change that makes statutory damages discretionary would be the most obvious solution to this problem.[292] There are in fact already scenarios in which current law denies statutory damages to a plaintiff when the defendant has a plausible fair use defense: the Copyright Act forbids judges from awarding statutory damages when a defendant had reasonable grounds to believe that their infringement was fair use, but only if the defendant is an educational institute, library, or non-profit broadcasting entity.[293] Amending the law to apply this section to *any* entity with a plausible fair use defense would be an easy way to allow judges to craft the kind of compulsory license remedy described above.

Even in the absence of legislative change, judges may not be entirely hamstrung in awarding a proper remedy for a transformative-but-substitutive use if the plaintiff elects statutory damages. In general, statutory damages are often guided by various non-exclusive policy and fairness-focused factors, such as the intent of the defendant and the licensing revenue lost to the plaintiff.[294] Judges occasionally attempt to craft statutory damages awards so that they roughly correspond to the plaintiff's actual damages.[295] While there is no requirement that courts do so,[296] Pam Samuelson and Tara Wheatland have argued that Congress originally intended statutory damages to be primarily compensatory, applicable mainly in situations where actual

292. *See* Lemley, *supra* note 51, at 198–202 (arguing in favor of discretionary statutory damages); Samuelson, *supra* note 7, at 862–63 (same).

293. 17 U.S.C. § 504(c)(2); 4 NIMMER & NIMMER, *supra* note 159, § 14.04.

294. *See, e.g.*, Bryant v. Media Right Prods., Inc., 603 F.3d 135, 144 (2d Cir. 2010) ("When determining the amount of statutory damages to award for copyright infringement, courts consider: (1) the infringer's state of mind; (2) the expenses saved, and profits earned, by the infringer; (3) the revenue lost by the copyright holder; (4) the deterrent effect on the infringer and third parties; (5) the infringer's cooperation in providing evidence concerning the value of the infringing material; and (6) the conduct and attitude of the parties.").

295. N.A.S. Imp., Corp. v. Chenson Enters., Inc., 968 F.2d 250, 252 (2d Cir. 1992) ("In determining an award of statutory damages within the applicable limits set by the Act, a court may consider 'the expenses saved and profits reaped by the defendants in connection with the infringements, the revenues lost by the plaintiffs as a result of the defendant's conduct, and the infringers' state of mind—whether wil[l]ful, knowing, or merely innocent.'" (quoting 4 NIMMER & NIMMER, *supra* note 159, § 14.04[B])); Peer Int'l Corp. v. Luna Recs., Inc., 887 F. Supp. 560, 569 (S.D.N.Y. 1995) (setting statutory damages while "mindful . . . of the small amount of actual damages suffered by plaintiffs"); 4 NIMMER & NIMMER, *supra* note 159, § 14.04 (discussing other cases); *see also* Samuelson & Wheatland, *supra* note 286, at 499 (arguing that statutory damages should be primarily compensatory).

296. *See, e.g.*, Psihoyos v. John Wiley & Sons, Inc., 748 F.3d 120, 127 (2d Cir. 2014); New Form, Inc. v. Tekila Films, Inc., 357 F. App'x 10, 11–12 (9th Cir. 2009); Sony BMG Music Ent. v. Tenenbaum, 660 F.3d 487, 506–07 (1st Cir. 2011).

damages would be difficult to prove.[297] Additionally, some judges have been willing to treat a plausible but unsuccessful fair use defense as a factor warranting low statutory damages,[298] though the courts are certainly not uniform in this approach.[299]

Thus, it is possible that judges could, in transformative-but-substitutive cases, attempt to craft a statutory damages award that roughly approximates a fair market value license that accounts for the defendant's innovation.[300] At the very least, a judge would likely still be within her discretion if she limited damages to the statutory minimum level based on a showing of transformativeness.[301]

In the (more common) scenario in which the jury is tasked with deciding statutory damages, such an outcome would be more difficult to achieve.[302] Indeed, juries are known to award high statutory damages, a practice that has led to much criticism of statutory damages generally.[303] At the very least, however, judges may still have some discretion to provide jury instructions that attempt to constrain the amount awarded based on policy and equity considerations, such as the defendant's purpose and the value of the copyrighted works in question.[304] And if a jury awards inappropriately high statutory

297. Samuelson & Wheatland, *supra* note 286, at 450–51.

298. *See, e.g.*, Religious Tech. Ctr. v. Lerma, No. CIV.A. 95-1107-A, 1996 WL 633131, at *15 (E.D. Va. Oct. 4, 1996) (awarding statutory minimum); Infinity Broad. Corp. v. Kirkwood, 63 F. Supp. 2d 420, 427 (S.D.N.Y. 1999) (same); Warner Bros. Ent. Inc. v. RDR Books, 575 F. Supp. 2d 513, 554 (S.D.N.Y. 2008) (same).

299. *See, e.g.*, Rogers v. Koons, 960 F.2d 301, 313 (2d Cir. 1992) ("[W]e think Rogers may be a good candidate for enhanced statutory damages."); L.A. Times v. Free Republic, No. 98-7840, 2000 WL 1863566, at *3 (C.D. Cal. Nov. 16, 2000) (awarding $1 million in statutory damages).

300. *See* Samuelson & Wheatland, *supra* note 286, at 501–10 (laying out several recommended best practices for judges in awarding statutory damages, including "award[ing] statutory damages in amounts that approximate the damages/profits that would have been awarded if the plaintiff had not elected to receive, or was ineligible for, a recovery of statutory damages").

301. *Cf. id.* (arguing that judges could award "the reduced minimum damages authorized for 'innocent' infringements in close fair use cases or in other cases in which the noninfringement claim was strong, even if ultimately not compelling").

302. The Supreme Court has held that the Seventh Amendment provides a right to a jury trial on copyright statutory damages. Feltner v. Columbia Pictures Television, Inc., 523 U.S. 340, 340 (1998).

303. *See, e.g.*, Pamela Samuelson & Ben Sheffner, *Unconstitutionally Excessive Statutory Damage Awards in Copyright Case*s, 158 U. PA. L. REV. PENNUMBRA 53, 54–57 (2009).

304. *Cf.* Sony BMG Music Ent. v. Tenenbaum, 660 F.3d 487, 503–04 (1st Cir. 2011) (approving of jury instruction for statutory damages that asked jurors to consider "the nature of the infringement; the defendant's purpose and intent, the profit that the defendant reaped, if any, and/or the expense that the defendant saved; the revenue lost

damages, the court can sometimes order a new trial or remittitur, though this is a notoriously difficult standard to meet in light of the broad discretion that juries have in setting statutory damages.[305]

C. PRIVATE LICENSING IN THE SHADOW OF A COMPULSORY LICENSE REMEDY

The proposal above would likely be criticized on several grounds. First, there is the frequent criticism of liability-rule remedies generally: that judges are ill-equipped to perform the complex calculations necessary to approximate market-based damages.[306] This criticism is especially salient when courts are asked to perform rate setting, as the Section above proposes.[307] Second, there is the criticism—most frequently leveled at fair use—that confining assessment of transformativeness to an infringement proceeding disincentivizes valuable secondary uses because of the uncertainty over a successful fair use defense, as well as the likely massive litigation costs.

There is reason to believe, however, that the mere *possibility* of a compulsory licensing remedy for transformative-but-substitutive utility-expanding uses could do much to facilitate more frequent and more socially beneficial private licensing arrangements between licensors and licensees. Daniel Crane has demonstrated that the shadow of rate setting has powerful effects on bargaining over intellectual property licenses.[308] In particular, "[h]ow the negotiating parties perceive the likely outcome of a rate-setting proceeding will affect the shape of their bargain."[309] The primary example cited by Crane is the rate court in the Southern District of New York that administers the consent decrees for the music copyright performance rights organizations ASCAP and BMI. Under the terms of the consent decrees,

by the plaintiff as a result of the infringement; the value of the copyright; the duration of the infringement; the defendant's continuation of infringement after notice or knowledge of copyright claims; and the need to deter this defendant and other potential infringers"); Agence Fr. Presse v. Morel, No. 10-CV-2730, 2014 WL 3963124, at *12 n.6 (S.D.N.Y. Aug. 13, 2014) (explaining practice of instructing jury to set statutory damages consistent with same policy factors utilized by judges).

305. *See Agence Fr. Presse*, 2014 WL 3963124, at *14–16 (declining to order remittitur when statutory damages award clearly exceeded actual damages).

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

307. *See* Arsberry v. Illinois, 244 F.3d 558, 562 (7th Cir. 2001) ("[R]ate setting by courts, [is] a task they are inherently unsuited to perform competently."); *see also* 4 NIMMER & NIMMER, *supra* note 159, § 14.05 (arguing that judges should not award copyright damages in the form of a reasonable royalty).

308. Daniel A. Crane, *Bargaining in the Shadow of Rate-Setting Courts*, 76 ANTITRUST L.J. 307 (2009).

309. *Id.* at 313.

potential licensees can ask the rate courts to set rates if no satisfactory agreement is negotiated.[310] Crane points out that the rates courts are relatively inactive and that "ASCAP and BMI engage in thousands of licensing transactions on behalf of hundreds of thousands of composers, songwriters, lyricists, and music publishers, and only a small fraction of these end up in rate-setting proceedings."[311] This suggests that the specter of rate setting plays an important role in galvanizing recalcitrant licensees to agree to rates that are acceptable to licensors.[312]

Mark Lemley has extended this line of reasoning, arguing that parties can and do bargain around liability rules for intellectual property interests in other contexts, including patent damages and Copyright Royalty Board rate-setting proceedings.[313] Lemley views this shadow bargaining as ultimately positive, noting that while property rules are of course designed to facilitate bargaining, they also create incentives for owners to use hold-out and hold-up strategies to demand high fees.[314] In intellectual property specifically, there is also evidence that property rules create an endowment effect that makes rightsholders reluctant to part with their work for a reasonable price.[315]

This scholarship suggests that the specter of a compulsory licensing possibility for utility-expanding technologies may facilitate private agreements between rightsholders and licensees.[316] Moreover, the possibility that the court will attempt to *account for the transformativeness* of the licensee's use in setting a rate would ideally galvanize rightsholders to demand only reasonable royalties rather than attempt to extract the maximum amount of payment.[317] Indeed,

310. *Id.* at 310.

311. *Id.*

312. *Id.* at 311–12.

313. Mark A. Lemley, *Contracting Around Liability Rules*, 100 CALIF. L. REV. 463, 476 (2012); *see also* García, *supra* note 176, at 1122; Kristelia A. García, *Private Copyright Reform*, 20 MICH. TELECOMM. & TECH. L. REV. 1, 17 (2013).

314. Lemley, *supra* note 313, at 484–86.

315. *Id.*

316. This shadow effect would likely be even more pronounced in situations where only one set of copyright owners has challenged a new utility-expanding technology and received a compulsory license as a remedy. Copyright owners who were not party to the litigation but whose works are being used by the technology company would not be bound by any court-imposed compulsory license remedy. However, such an outcome would presumably galvanize these rightsholders, as well as the technology company, to enter into private licensing agreements, lest they go through the time and expense of new litigation only to receive the same rate.

317. In cases where transaction costs pose a barrier to large-scale licensing by a new utility-expanding technology, there is still a possibility that the specter of a

Kristelia García has shown that "bounded uncertainty" in a compulsory licensing regime—i.e., unpredictability regarding the likely rate or even the very existence of a licensing requirement—can galvanize unequally situated parties to reach mutually agreeable rates through private negotiation.[318]

The question arises: could the possibility of a fair use determination—without the possibility of the type of compulsory license suggested by this Article—alone be capable of spurring beneficial private licensing? There is little evidence that the shadow of fair use has encouraged rightsholders to bargain with new utility-expanding technologies, especially when rightsholders recognize they have a plausible market-harm argument. *TVEyes* presents a useful example. There is some evidence that TVEyes attempted to license Fox's content but failed to reach a deal,[319] possibly due to the fact that Fox appears to impose restrictive demands on its licensees, including prohibiting the use of the materials in any way that is "derogatory or critical" of Fox.[320] Clearly, the possibility of a fair use determination in TVEyes's favor was insufficient to motivate Fox to license the material on unrestrictive terms, possibly because Fox recognized that TVEyes's highly substitutive use fell outside the limits of what fair use is able to accommodate.

Additionally, the difficulty and uncertainty of proving fair use may also disincentivize secondary users from making innovative use of existing content to begin with, out of fear that they will be faced with unfeasible licensing demands or, if they attempt and lose a fair use argument, an injunction, attorneys' fees, and a large damages award.[321] Supplementing fair use with the possibility of a compulsory license could galvanize private licensing by providing greater certainty to innovative licensees that are contemplating engaging in a utility-expanding use and providing less certainty to rightsholders

compulsory license could galvanize private-ordering-based solutions to this problem. Pam Samuelson, for example, has suggested that class action settlements in large-scale infringement cases may present a promising option for creating private regimes that allow utility-expanding technologies to receive permission to use copyrighted works. Pamela Samuelson, *The Google Book Settlement as Copyright Reform*, 2011 WIS. L. REV. 479, 482–83.

318. García, *supra* note 176, at 1122–23.

319. Fox News Network, LLC v. TVEyes, Inc., 883 F.3d 169, 175 (2d Cir. 2018) ("Fox claims that at some point TVEyes unsuccessfully approached it to procure a license to use Fox programming.").

320. Petition for Writ of Certiorari at 11, TVEyes, Inc. v. Fox News Network, LLC, 139 S. Ct. 595 (2018) (mem.) (No. 18-321).

321. *See* Jennifer E. Rothman, *Copyright's Private Ordering and the "Next Great Copyright Act,"* 29 BERKELEY TECH. L.J. 1595, 1599–1605 (2014) (making this argument).

that rebuffing (or overcharging) such licensees will prevent the use from ever taking place.[322] The result would ideally be an increase in licensing by rightsholders, at reasonable rates, to utility-expanding dissemination companies. This would potentially allow these forms of dissemination to enhance public access to creative works without having to resort to costly litigation and judicial oversight.

CONCLUSION

The digital age has ushered in a range of new and exciting technologies that expand and enhance access to creative works for the public. From Google Books to music streaming, these technologies promise a world in which users can access content at will, as well as take advantage of novel ways of exploring and utilizing the full range of human cultural expression. This Article has attempted to expose and remedy one of the ways in which current copyright law impedes the development of these utility-expanding technologies. The concept of transformative fair use has provided a necessary vehicle for allowing some uses to occur, but the fair use doctrine—in particular thanks to its market harm inquiry—has been unable to accommodate others. As the analysis above makes clear, the problem here may be that fair use cannot alone allow all such uses to flourish while still respecting copyright's financial incentive function. Compulsory copyright licensing—and, in particular, the model offered by copyright's long-running experiment with regulating prices in new music dissemination industries—may provide a useful approach to dealing with some utility-expanding technologies. Providing a compulsory license option for transformative-but-substitutive dissemination technologies would render copyright law more consistent with its utilitarian justifications by allowing the public to take advantage of the full range of these new forms of dissemination, while still ensuring that creators receive financial incentives to produce new works.

322. *Cf.* García, *supra* note 176, at 1121 (showing how bargaining in the shadow of an *uncertain* compulsory license can improve efficient private ordering).