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Thomas F. Cotter

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# Transformative Use and Cognizable Harm

*Thomas F. Cotter\**

## ABSTRACT

*In recent years, the question of whether the unauthorized use of a copyrighted work is “transformative” has become a dominant consideration in determining whether the use is fair or unfair. As critics have pointed out, however, this emphasis on transformative use is both underinclusive and indeterminate of the range of uses that fall within the scope of the fair use privilege. Worse yet, efforts to define or apply the concept of transformative use, or to distinguish fair transformative uses from transformative uses that infringe the copyright owner’s exclusive right to prepare derivative works, often serve only to illuminate the concept’s malleability and to obscure the relevant policy considerations. Consistent with these critiques, this Article argues that much of the current emphasis on transformative use is misguided, and that courts instead should focus the fair use inquiry on whether the defendant’s unauthorized use threatens cognizable harm to the copyright owner’s interest in exploiting her work. In resolving this question, it sometimes may be relevant to consider whether a use is transformative in terms of its content or purpose, but transformativeness should remain subsidiary to the broader inquiry into cognizability.*

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Section 107 of the Copyright Act states that “the fair use of a copyrighted work . . . is not an infringement of copyright.”<sup>1</sup> It codifies four factors, including the “purpose and character of the use,” and “the effect of the use upon the potential market for or value of the copyrighted work,” as being relevant to this determination.<sup>2</sup> In *Campbell v. Acuff-Rose Music, Inc.*, the United States Supreme Court held that, in evaluating the purpose and character of the use, courts should consider the extent to which the use is “transformative.”<sup>3</sup> While cautioning that transformativeness is not a necessary condition for a finding of fair use, the Court asserted that

the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works. Such works thus lie at the heart of the fair use doctrine’s guarantee of breathing space within the confines of copyright and the more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.<sup>4</sup>

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1. 17 U.S.C. § 107 (2006).  
2. *See id.*  
3. 510 U.S. 569, 579 (1994).  
4. *Id.* (internal citation omitted).

In discussing the relevance of transformative use, the Court cited with approval United States District Judge Pierre Leval's essay, *Toward a Fair Use Standard*,<sup>5</sup> which promoted transformativeness as a key determinant of whether an unauthorized use "fulfill[s] the objective of copyright law to stimulate creativity for public illumination."<sup>6</sup>

In recent years, transformativeness has become a dominant factor in deciding fair use cases; yet, at times it seems that courts use the term "transformative use" more as a conclusion to justify a result than as an analytical tool leading to that result.<sup>7</sup> As a consequence, the concept of transformative use has generated considerable doctrinal confusion. In some cases, courts have struggled (generally unsuccessfully) to distinguish the sort of transformation that counts for fair use analysis from the sort of transformation that violates the exclusive right to prepare derivative works.<sup>8</sup> In others, they have stretched the meaning of the word "transformative" to permit uses

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5. Pierre N. Leval, Commentary, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105 (1990). The Supreme Court cites Leval's essay in *Campbell*. 510 U.S. at 576 & n.8, 578 n.10, 579, 585 n.18, 586–87, 590 n.21, 591–92, 593 n.23.

6. Leval, *supra* note 5, at 1111. In Judge Leval's formulation, a transformative use must be productive and must employ the quoted matter in a different manner or for a different purpose from the original. A quotation of copyrighted material that merely repackages or republishes the original is unlikely to pass the test; in Justice Story's words, it would merely "supersede the objects" of the original. If, on the other hand, 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.

*Id.* (citations omitted).

7. Professor Zimmerman noted this phenomenon more than ten years ago. See Diane Leenheer Zimmerman, *The More Things Change the Less They Seem "Transformed": Some Reflections on Fair Use*, 46 J. COPYRIGHT SOC'Y U.S.A. 251, 268 (1998) ("If anything, 'transformative,' by being reduced in practice to a catchword, actually has diminished the lucidity of recent fair use decisions.").

8. See *infra* Part I. To illustrate, § 106(2) of the Copyright Act confers upon copyright owners, subject to § 107 through § 122, the exclusive right to prepare derivative works based upon their copyrighted works. See 17 U.S.C. § 106(2) (2006). Section 101 of the Copyright Act defines a derivative work as

a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted.

17 U.S.C. § 101 (2006). Viewed together, § 101's definition of "derivative work" and *Campbell's* gloss on fair use create something of a puzzle. According to § 101, a derivative work is a work in which another, underlying work has been "recast, transformed, or adapted." Under § 106(2), then, the unauthorized transformation of a copyrighted work would appear, *prima facie*, to be infringing. At the same time, however, under *Campbell*, the fact that a use transforms another's copyrighted work renders it more likely that the use at issue is a fair use. Thus, while unauthorized transformations appear to be unlawful according to one provision of the Copyright Act, they appear to be lawful according to another provision as interpreted in a (largely well-received) Supreme Court opinion.

that promise widespread social benefits but are difficult to characterize as transformative in any conventional sense.<sup>9</sup> These difficulties have led some scholars to criticize the concept of transformative use as potentially undervaluing the social benefits of uses that involve little or no transformation,<sup>10</sup> or as being so manipulable as to exacerbate the inherent uncertainty of the fair use doctrine.<sup>11</sup>

In this Article, I will argue that, in overemphasizing the role of transformative use, courts have tied themselves up in unnecessary doctrinal knots while obscuring or ignoring the underlying policy choices. I contend instead that the fundamental issue surrounding fair use is whether the use at issue threatens the copyright owner with cognizable harm, as I shall define the term.<sup>12</sup> In this regard, my thesis echoes a theme developed in recent work by scholars such as Shyamkrishna Balganesh,<sup>13</sup> Christina Bohannon,<sup>14</sup> Wendy Gordon,<sup>15</sup>

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9. See *infra* Part I.

10. See Pamela Samuelson, *Unbundling Fair Uses*, 77 *FORDHAM L. REV.* 2537, 2555–56 (2009); Rebecca Tushnet, *Copy This Essay: How Fair Use Doctrine Harms Free Speech and How Copying Serves It*, 114 *YALE L.J.* 535, 565–81 (2004).

11. See, e.g., Bruce P. Keller & Rebecca Tushnet, *Even More Parodic than the Real Thing: Parody Lawsuits Revisited*, 94 *TRADEMARK REP.* 979, 1015 (2004) (referring to the transformative use doctrine in both copyright and right of publicity law as suffering from problems of “subjectivity, manipulability and unpredictability”); John Tehranian, *Whither Copyright? Transformative Use, Free Speech, and an Intermediate Liability Proposal*, 2005 *BYU L. REV.* 1201, 1240 (2005) (referring to “ex ante uncertainty over what counts as a transformative use” resulting in speech-chilling effects).

12. One might argue that if the use at issue does not cause cognizable harm, then you do not need the fair use doctrine; the use is not actionable. On the other hand, despite being characterized as an affirmative defense, see *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994), a literal reading of Copyright Act Section 107 would suggest that the copyright owner’s rights do not extend to uses that are fair uses. See 17 U.S.C. § 107 (2006) (“Notwithstanding the provisions of section 106 and 106A, the fair use of a copyrighted work . . . is not an infringement of copyright.”); Edmund W. Kitch, *Can the Internet Shrink Fair Use?*, 78 *NEB. L. REV.* 880, 885 (1999) (arguing that the statutory language more naturally reads as excluding fair uses from the scope of the plaintiff’s rights than as creating an affirmative defense). However, such doctrinal niceties are beside the point. In reality, the fair use factors focus attention on evidence that is relevant to determining whether the potential harm generated by a particular use is cognizable. One piece of evidence that is often, but not always, relevant is transformativeness. See *infra* Part II.B.

13. See Shyamkrishna Balganesh, *Foreseeability and Copyright Incentives*, 122 *HARV. L. REV.* 1569 (2009) (arguing that an author’s initial copyright entitlement should not extend to unauthorized uses that were unforeseeable at the time of creation).

14. See Christina Bohannon, *Copyright Infringement and Harmless Speech*, 61 *HASTINGS L.J.* (forthcoming 2010), available at <http://ssrn.com/abstract=1367624> (arguing that the First Amendment constrains liability for copyright infringement, by requiring proof that permitting the unauthorized use at issue would materially reduce authors’ incentives to create and publish); see also Christina Bohannon, *Copyright Harm, Foreseeability, and Fair Use*, 85 *WASH. U. L.R.* 969 (2007) (arguing that fair use should excuse unauthorized uses that are not likely to have a material impact on authors’ ex ante incentives to create and publish); Christina

Sara Stadler,<sup>16</sup> and Christopher Sprigman,<sup>17</sup> though the concept of cognizable harm as I describe it departs in some respects from the analysis that these authors present. Unfortunately, deciding what constitutes cognizable harm can be quite difficult; it involves consideration of the purposes of copyright, the relationship of copyright to freedom of speech, and the policies underlying the fair use privilege, but it cannot be answered merely by wooden application of the fair use factors (including transformativeness). The proposed framework in this Article takes transformativeness down a peg by characterizing it as (often, but not always) relevant to the question of whether a particular use threatens cognizable harm.

Part I addresses why transformative use is an unsatisfactory touchstone for determining fair use, taking into account various applications of the concept in recent case law. Part II elaborates on the thesis that the fundamental question for fair use purposes should be cognizability, and that transformativeness should play only a supporting role in the analysis. Part III concludes.

## I. PROBLEMS WITH TRANSFORMATIVE USE

### A. Definitional Problems

The first option, reliance on transformative use as a criterion for fair use, has proven problematic for two principal reasons. The first, as scholars Rebecca Tushnet and Pamela Samuelson (among others) have pointed out, is that many uses that typically would qualify as fair under conventional analysis—a teacher’s spontaneous copying of a newspaper article for classroom use, for example, or a consumer’s time-shifting of commercial television programming—do not in any obvious way transform the content or purpose of the underlying work.<sup>18</sup> Although the underinclusive nature of

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Bohannon & Herbert Hovenkamp, *IP and Antitrust: Reformation and Harm* 62 (Univ. of Iowa Legal Studies Research, Paper No. 09-16, 2010), available at <http://ssrn.com/abstract=1377382> (reaffirming the preceding propositions).

15. See Wendy J. Gordon, Keynote Address, *Harmless Use: Gleaning from the Fields of Copyrighted Works*, 77 *FORDHAM L. REV.* 2411, 2426-27 (2009); Wendy J. Gordon, *Response: Trespass-Copyright Parallels and the Harm-Benefit Distinction*, 122 *HARV. L. REV. F.* 62 (2009).

16. Sara K. Stadler, *Copyright as Trade Regulation*, 155 *U. PA. L. REV.* 899, 933-34 (2007).

17. See Christopher Sprigman, *Copyright and the Rule of Reason*, 7 *J. ON TELECOMM. & HIGH TECH. L.* 317 (2009) (arguing that unauthorized uses of a type that are likely to cause harm to author incentives should be per se unlawful, but that authors should be required to demonstrate harm flowing from unauthorized uses of a type the effects of which on incentives are ambiguous).

18. See Samuelson, *supra* note 10, at 2555-56; Tushnet, *supra* note 10, at 560.

transformative use would not pose insurmountable difficulties as long as transformativeness remained only one of several relevant fair use factors, the growing importance of transformativeness in fair use analysis threatens to obscure the public benefits that some forms of nontransformative copying generate.<sup>19</sup> Of course, one possible response to this perceived threat would be to define transformative use broadly, so as to encompass some literal copying that, for example, changes the context in which the original work is presented<sup>20</sup> or that alters readers' understandings of the work.<sup>21</sup> I will argue below, however, that a more straightforward approach would be to grapple directly with the question of whether permitting such uses would be consistent with the purposes of copyright as read in light of the First Amendment.<sup>22</sup> Although transformativeness (in terms of content, purpose, or perhaps even context or reader response) may be relevant to this inquiry, it rarely provides a rationale by itself for excusing unauthorized uses from the scope of liability.

The second problem is that, even if one attempts to define the term "transformative" more conventionally (and thus to leave open the possibility that some literal copying will qualify as fair use, even if not *transformative* fair use), efforts thus far to define the term with any precision remain problematic. At a purely theoretical level, it might make sense to define "transformative use"—or for that matter, fair use itself—as arising whenever the social benefits of permitting the use would outweigh the social costs (including, presumably, the systemic harm, if any, to the copyright incentive scheme). But while fair use may be characterized as a means for permitting unauthorized uses that promise net positive externalities, defining the contours of the doctrine at such an abstract level would be unworkable in practice.<sup>23</sup> To be sure, it may be possible to isolate certain types of uses as more likely than others to generate such externalities. In a sense, this is what the introductory language to § 107 means when it provides its

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19. See Tushnet, *supra* note 10, at 555–60.

20. See, e.g., Rebecca Tushnet, *User-Generated Discontent: Transformation in Practice*, 31 COLUM. J.L. & ARTS 497 (2008).

21. See Laura A. Heymann, *Everything Is Transformative: Fair Use and Reader Response*, 31 COLUM. J.L. & ARTS 445 (2008).

22. See *infra* Part II.B.

23. See Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1283–84 (2008) [hereinafter Cotter, *Overenforcement*]; Bohannon, *Copyright Harm*, *supra* note 14, at 973, 986–87 (arguing that such ad hoc case-by-case judgments would be wildly unpredictable and inconsistent).

nonexhaustive list of uses that *may* be fair.<sup>24</sup> It may even be that free speech considerations weigh in favor of presuming that certain types of uses (e.g., for criticism) generate net positive externalities—and that the harm caused by certain types of uses should be ignored.<sup>25</sup> But none of these qualifications seems to have any direct bearing on the definition of transformative use, or to provide anything more than a vague guideline as to when fair use kicks in.

A second possible option would be to equate transformative use with any use of the original that results in creation of a derivative work.<sup>26</sup> For example, in *CleanFlicks of Colorado, LLC v. Soderbergh*,<sup>27</sup> the plaintiff sought a declaratory judgment that the unauthorized making of edited versions of motion pictures, as well as the subsequent distribution of the edited copies, did not infringe the copyrights in the defendants' motion pictures. The court thought otherwise, finding a *prima facie* violation of the copyright owners' reproduction and distribution rights and rejecting the fair use defense because, *inter alia*, the court found the use at issue to be nontransformative.<sup>28</sup> Precisely *because* the use was not transformative, however, the court also rejected the copyright owners' argument that the edited copies constituted infringing derivative works.<sup>29</sup> This equation of the transformation requisite for creating a derivative work with the transformation that sometimes qualifies a use as fair may seem logical, but taken to its logical conclusion it suggests that fair use (always?) trumps the author's exclusive right to prepare derivative works. Although this outcome may be desirable as a matter of policy,<sup>30</sup> it is difficult to believe that a reading of fair use that renders another provision of the Copyright Act a virtual nullity can be right.

A third option would be to take precisely the opposite tack, by defining transformative *fair* uses and transformative uses that result in the creation of derivative works so as to exclude the possibility that a use could simultaneously fall into both categories. This option would avoid the problem of having the fair use doctrine effectively

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24. See 17 U.S.C. § 107 (2006) (stating that fair use “for purposes such as criticism, comment, news reporting, teaching . . . scholarship, or research, is not an infringement of copyright”).

25. See *infra* Part II.B.

26. See *supra* note 8 and accompanying text.

27. 433 F. Supp. 2d 1236 (D. Colo. 2006).

28. See *id.* at 1239-43.

29. *Id.* at 1242 (“[B]ecause the infringing copies of these movies are not used in a transformative manner, they are not derivative works and do not violate § 106(2).”).

30. See *infra* Part II.A.2 (discussing the rationales for the derivative works right).



negate Copyright Act § 106(2); but the underlying premise, that either *all* transformative uses create derivative works (thus threatening to nullify § 106(2)), or that none of them do, seems doubtful. There is nothing illogical, after all, about a fair use standard that excuses some but not all uses that otherwise would create infringing derivative works. Perhaps, though, the difficulty of determining when fair use trumps § 106(2) and when it does not suggests that some sort of “bright line” between the two doctrines would be desirable. Fashioning an appropriate bright line, however, in a sense merely replicates the dilemma of deciding where § 106(2) ends and fair use begins, albeit on a more abstract (as opposed to case-by-case) level. Two (relatively) recent cases nevertheless can be read as embracing this third option, though neither successfully defends it.

### B. Ty, Inc. v. Publications International Ltd.

The first case, *Ty, Inc. v. Publications International Ltd.*,<sup>31</sup> is one of several *Beanie Baby* opinions authored by Judge Richard Posner.<sup>32</sup> At issue were a series of books, published by defendant Publications International, Ltd. (PIL), that contained unauthorized photographs of Ty’s Beanie Baby stuffed animals.<sup>33</sup> One book, appearing in three different versions and titled *For the Love of Beanie Babies*, contained photographs of over 150 Beanie Babies, each accompanied by brief commentary.<sup>34</sup> Another, titled *Beanie Babies Collector’s Guide*, contained not only photographs but also information of value to collectors, including each Beanie Baby’s release date, “retired” date, estimated value, and other relevant information (including critical commentary) about some of the products.<sup>35</sup> Rejecting PIL’s fair use defense, the district court granted summary judgment to Ty, and PIL appealed.<sup>36</sup> The Seventh Circuit reversed, finding genuine issues of material fact relevant to PIL’s fair use defense.<sup>37</sup> Of particular significance for present purposes is Judge Posner’s extended discussion of the relationship, as he saw it, between

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31. 292 F.3d 512 (7th Cir. 2002).

32. See, e.g., *Ty Inc. v. Softbelly’s, Inc.*, 517 F.3d 494 (7th Cir. 2008); *Ty, Inc. v. GMA Accessories, Inc.*, 132 F.3d 1167 (7th Cir. 1997).

33. See *Ty*, 292 F.3d at 515.

34. See *id.* at 519, 523. The Court of Appeals characterized the commentary as “secondary,” however, and described this series of books as “*essentially* just a collection of photographs of Beanie Babies.” *Id.* (emphasis in original).

35. See *id.* at 519-20.

36. See *id.* at 515.

37. See *id.* at 523-24.

the exclusive right to prepare derivative works and the fair use privilege.

Judge Posner began his analysis with some reflections on the purpose of the fair use doctrine, particularly as applied to critical works such as book reviews. As he noted, book reviews generally serve the interests of copyright owners by providing a form of advertising for new books.<sup>38</sup> For this particular form of advertising to be credible, however, it normally must satisfy two conditions. First, the review usually has to quote some portions of the book under review in order to assist the reader's understanding.<sup>39</sup> If the review quotes so much as to render itself a substitute for the original, however, the fair use defense fails.<sup>40</sup> Second, to preserve credibility, the review must not be subject to the copyright owner's control.<sup>41</sup> Thus, while the owners of copyright in "the worst books" might benefit from being able to control the content of reviews, publishers in general would not.<sup>42</sup> Generalizing from this example, the court proposed that

copying that is complementary to the copyrighted work (in the sense that nails are complements of hammers) is fair use, but copying that is a substitute for the copyrighted work (in the sense that nails are substitutes for pegs or screws), or for derivative works from the copyrighted work is not fair use.<sup>43</sup>

Judge Posner then applied this distinction between complements and substitutes as a rationale for the courts' disparate treatment of parodies and burlesques under the fair use doctrine.<sup>44</sup> Like a book review, "parody . . . is a form of criticism (good-natured or otherwise)" and "is not intended as a substitute for the work parodied," though it "must quote enough of that work to make the parody recognizable as such, and that amount of quotation is deemed fair use."<sup>45</sup> A burlesque, by contrast, "is often just a humorous substitute for the original and so cuts into the demand for it."<sup>46</sup>

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38. *See id.* at 517.

39. *See id.*

40. *See id.*

41. *See id.*

42. *See id.* (stating further that "publishers want their books reviewed and wouldn't want reviews inhibited and degraded by a rule requiring the reviewer to obtain a copyright license from the publisher if he wanted to quote from the book"). In other words, reviews are a credible form of advertising only if readers view them as not being subject to control by the author or publisher. Publishers and authors in the aggregate therefore are better off if they cannot control the content of reviews, even though individual authors and publishers might sometimes view themselves as better off if they could stop a bad review from appearing in print.

43. *Id.* (citation omitted).

44. *See id.* at 518.

45. *Id.*

46. *Id.*

With this framework in place, the court next considered whether the books at issue constituted (infringing) substitutes or (fair use) complements:

Were control of derivative works not part of a copyright owner's bundle of rights, it would be clear that PIL's books fell on the complement side of the divide and so were sheltered by the fair-use defense. A photograph of a Beanie Baby is not a substitute for a Beanie Baby. No one who wants a Beanie Baby, whether a young child who wants to play with it or an adult (or older child) who wants to collect Beanie Babies, would be tempted to substitute a photograph. But remember that photographs of Beanie Babies are conceded to be derivative works, for which there may be a separate demand that Ty may one day seek to exploit, and so someone who without a license from Ty sold photographs of Beanie Babies would be an infringer of Ty's sculpture copyrights. The complication here is that the photographs are embedded in text, in much the same way that quotations from a book are embedded in a review of the book.<sup>47</sup>

The court then proceeded to an extended discussion of how derivative works are different from fair use works such as book reviews and collectors' guides:

Ty acknowledges as it must that a collectors' guide to a series of copyrighted works is no more a derivative work than a book review is. We cannot find a case on the point but the Copyright Act is clear. . . . A derivative work thus must either be in one of the forms named or be "recast, transformed, or adapted." The textual portions of a collectors' guide to copyrighted works are not among the examples of derivative works listed in the statute, and guides don't recast, transform, or adapt the things to which they are guides. A guide to Parisian restaurants is not a recasting, transforming, or adapting of Parisian restaurants. Indeed, a collectors' guide is very much like a book review, which is a guide to a book and which no one supposes is a derivative work. Both the book review and the collectors' guide are critical and evaluative as well as purely informational; and ownership of a copyright does not confer a legal right to control public evaluation of the copyrighted work.<sup>48</sup>

Based on this analysis, the court reversed and remanded for a determination of whether PIL reproduced more than was reasonably necessary to produce marketable collectors' guides.<sup>49</sup>

### C. Warner Bros. Entertainment v. RDR Books

Judge Robert Patterson undertook a similar frame of analysis in *Warner Bros. Entertainment v. RDR Books*.<sup>50</sup> At issue was a book titled *The Lexicon: An Unauthorized Guide to Harry Potter Fiction and Related Materials*, which collected and organized information drawn from the *Harry Potter* series of books.<sup>51</sup> *Harry Potter* author J.K.

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47. *Id.* at 518-19.

48. *Id.* at 520-21.

49. *See id.* at 523-24.

50. 575 F. Supp. 2d 513 (S.D.N.Y. 2008); *see also* *Castle Rock Entm't, Inc. v. Carol Publ'g Group, Inc.*, 150 F.3d 132, 143 (2d Cir. 1998) ("Although derivative works that are subject to the author's copyright transform an original work into a new mode of presentation, such works—unlike works of fair use—take expression for purposes that are not 'transformative'").

51. *See Warner Bros.*, 575 F. Supp. 2d at 520-21, 524-26. As the court described it:

Rowling and Warner Brothers, the owner of the exclusive film rights to her novels, filed suit against *The Lexicon's* publisher, claiming violations of the plaintiffs' reproduction and adaptation rights.<sup>52</sup> In ruling for the plaintiffs, Judge Patterson expounded at some length on the differences between the derivative works right and the fair use privilege, and quoted Judge Posner's opinion in *Ty* with approval:

A work is not derivative . . . simply because it is "based upon" the preexisting works. If that were the standard, then parodies and book reviews would fall under the definition, and certainly "ownership of copyright does not confer a legal right to control public evaluation of the copyrighted work." *Ty, Inc. v. Publ'ns Int'l Ltd.*, 292 F.3d 512, 521 (7th Cir. 2002). The statutory language seeks to protect works that are "recast, transformed, or adapted" into another medium, mode, language, or revised version, while still representing the "original work of authorship." See *Castle Rock*, 150 F.3d at 143 n. 9 (stating that "derivative works that are subject to the author's copyright transform an original work into a new mode of presentation"); *Twin Peaks*, 996 F.2d at 1373 (finding a derivative work where a guidebook based on the *Twin Peaks* television series "contain[ed] a substantial amount of material from the teleplays, transformed from one medium to another"). Thus in *Ty, Inc. v. Publications International Ltd.*, Judge Posner concluded, as the parties had stipulated, that a collectors' guide to Beanie Babies was not a derivative work because "guides don't recast, transform, or adapt the things to which they are guides." 292 F.3d at 520 (emphasis added).<sup>53</sup>

Continuing, Judge Patterson reasoned that *The Lexicon* was not a derivative work merely because it contained substantial material from the plaintiffs' works. *The Lexicon* was not an abridgement of those works and did more than transform those works from one medium to another.<sup>54</sup> More specifically:

By condensing, synthesizing, and reorganizing the preexisting material in an A-to-Z reference guide, the Lexicon does not recast the material in another medium to retell the story of *Harry Potter*, but instead gives the copyrighted material another purpose. That purpose is to give the reader a ready understanding of individual elements in the elaborate world of *Harry Potter* that appear in voluminous and diverse sources. As a result, the Lexicon no longer "represents [the] original work[s] of authorship." 17 U.S.C. § 101. Under these circumstances, and because the Lexicon does not fall under any example of derivative works listed in the statute, Plaintiffs have failed to show that the Lexicon is a derivative work.<sup>55</sup>

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The *Lexicon* entries cull every item and character that appears in the *Harry Potter* works, no matter if it plays a significant or insignificant role in the story. . . . The *Lexicon* also contains entries for items that are not explicitly named in the *Harry Potter* works but which Vander Ark has identified, such as medical magic, candle magic, wizard space, wizard clothing, and remorse. Some of the entries describe places or things that exist in the real world but also have a place in the *Harry Potter* works, such as moors, Greece, and Cornwall.

*Id.* at 525.

52. See *id.* at 517-19.

53. *Id.* at 539.

54. See *id.*

55. *Id.* (footnote omitted).

In a footnote, the court emphasized the difference between recasting and retelling:

This distinction is critical to the difference between derivative works, which are infringing, and works of fair use, which are permissible. *See Castle Rock*, 150 F.3d at 143 (“Although derivative works that are subject to the author’s copyright transform an original work into a new mode of presentation, such works—unlike works of fair use—take expression for purposes that are not ‘transformative.’”); *Twin Peaks*, 996 F.2d at 1375–76 (suggesting that whether an abridgement is a fair use rather than a derivative work may depend on whether it serves “a transformative function and elaborates in detail far beyond what is required to serve any legitimate purpose”). *But see Blanch v. Koons*, 467 F.3d 244, 252 n.4 (“A derivative use can certainly be complementary to, or fulfill a different function from, the original.”).<sup>56</sup>

Thus, under Judge Patterson’s approach, a derivative work recasts, transforms, or adapts the original “into another medium, mode, language, or revised version, while still representing the ‘original work of authorship.’”<sup>57</sup> Because *The Lexicon* did more than merely “recast the material in another medium,” and did not “represent” the original, it was not a derivative work.<sup>58</sup> At the same time, however, *The Lexicon* did reproduce substantial expression, and thus violated the § 106(1) reproduction right, absent a viable fair use defense.<sup>59</sup> As for fair use, the court concluded that *The Lexicon* had a transformative purpose; like the *Beanie Babies* guides, it served as a reference guide to the original.<sup>60</sup> Because large portions of *The Lexicon* merely reproduced expression from the plaintiffs’ works, however, the court found that *The Lexicon* was not *consistently* transformative, and thus that the first factor weighed in the defendant’s favor only slightly.<sup>61</sup> Concluding that the other fair use factors weighed against the defendant’s use, the court rejected the fair use defense and entered judgment for the plaintiffs.<sup>62</sup>

56. *Id.* at 539 n.18.

57. *Id.* at 538.

58. *See id.* at 539.

59. *See id.* at 534–38.

60. *See id.* at 541–42.

The fair use doctrine seeks to protect a secondary work if it “adds value to the original—if [copyrightable expression in the original work] is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings,” because such a work contributes to the enrichment of society. Courts have found a transformative purpose both where the defendant combines copyrighted expression with original expression to produce a new creative work and where the defendant uses a copyrighted work in a different context to serve a different function than the original. . . . Because it serves these reference purposes, rather than the entertainment or aesthetic purposes of the original works, the *Lexicon*’s use is transformative and does not supplant the objects of the *Harry Potter* works.

*Id.* at 541 (alteration in original) (citations omitted).

61. *See id.* at 544, 548.

62. *See id.* at 545–51, 554.

*D. Problems with the Ty and Warner Bros. Approaches*

The analysis in the preceding two cases is striking in several respects. In *Ty*, at first blush, the court's assertion that fair uses are complementary to the works from which they borrow, and that infringing works are substitutes,<sup>63</sup> might seem to provide a useful criterion for distinguishing fair uses from infringing uses. As the court stated, a book review is a standard example of a fair use<sup>64</sup> (assuming that the review's copying from the underlying work remains within reasonable bounds); and a favorable review might seem to complement the work under review by increasing demand for that work. But the use of a "complementarity" principle as the touchstone for fair use breaks down upon further analysis. Books and book reviews are not functionally complementary, like a hammer and nails; instead, a review "changes the information set upon which the reader bases her preferences."<sup>65</sup> As a result, the effect of a favorable book review on the demand for a book is primarily a function of the review's content, and not, as in the hammer and nail example, of a decrease in the cost of consuming the supposed complement. In response, Judge Posner might reply that by immunizing book reviews from liability, the fair use doctrine *generally* lowers readers' costs of obtaining truthful information about books, and thus *generally* stimulates demand for books.<sup>66</sup> Perhaps in this weak sense, books and book reviews can be thought of as complements, but then the inquiry into complementarity becomes indistinguishable from an inquiry into whether, if the fair use doctrine did not apply to the *type* of conduct under scrutiny, demand for the *type* of work at issue would decrease (or if attendant transaction costs would increase).<sup>67</sup> If so, it would be more straightforward simply to make some educated guess about the consequential social costs and benefits of applying fair use in a given type of case than to waste time puzzling over whether the defendant's

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63. See *Ty, Inc. v. Publ'ns Int'l Ltd.*, 292 F.3d 512, 517 (7th Cir. 2002).

64. See *id.*

65. Thomas F. Cotter, *Memes and Copyright*, 80 TUL. L. REV. 331, 389 n.242 (2005) [hereinafter Cotter, *Memes*].

66. See *Ty*, 292 F.3d at 517.

67. See *id.* ("[I]n the absence of a fair-use doctrine, most publishers would disclaim control over the contents of reviews. The doctrine makes such disclaimers unnecessary. It thus economizes on transaction costs."); see also *id.* at 518 (noting that, in the context of "a quotation from a copyrighted work in a book or article," the "complementary effect may be quite weak, but the quotation is unlikely to reduce the demand for the copyrighted work; nor could the copyright owner command a license fee commensurate with the costs of transacting with the copier").

work is complementary to the plaintiff's.<sup>68</sup> In addition, the court's focus on complementarity forces it to characterize *unfavorable* reviews and other critiques that *reduce* the demand for the work under review as "negative complements,"<sup>69</sup> a concept that, as far as I can tell, foreign to standard economic theory.<sup>70</sup> Invoking the concept of "negative complements," in other words, seems driven primarily by the desire to shoehorn the obvious counterexample of an unfavorable review (which is surely a fair use, assuming that the amount quoted is reasonable) into an unnecessary conceptual framework.

In addition, although the court initially seemed to indicate that the complement/substitute distinction can serve as a basis for distinguishing (noninfringing) fair uses from (infringing) unauthorized derivative works,<sup>71</sup> this distinction too breaks down on further analysis. Indeed, it breaks down on the court's *own* further analysis. As noted above, the court in *Ty* stated, toward the end of the opinion, that "[w]ere control of derivative works not part of a copyright owner's bundle of rights, it would be clear that PIL's books falls on the complement side of the divide and so were sheltered by the fair-use defense."<sup>72</sup> The way the sentence is phrased seems to imply that the right to prepare derivative works *might* cover some complementary works after all, even if not under the facts of the case before the

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68. Another oddity of characterizing book reviews and books as complements is that the complementarity effect seems to run much more strongly in one direction than the other. One would think that a favorable review would be more likely to stimulate demand for a book than would a book's preexisting popularity to stimulate demand for more reviews of the book (although this supposition may not be universally true).

69. See *Ty*, 292 F.3d at 518 ("Book reviews and parodies are merely examples of types of work that quote or otherwise copy from copyrighted works yet constitute fair use because they are complements of (though sometimes negative complements, as in the case of a devastating book review) rather than substitutes for the copyrighted original.").

70. See Cotter, *Memes*, *supra* note 65, at 389 n.242. To be fair, it's not clear that Judge Posner still adheres to this analysis in its entirety. In more recent work, he omits the reference to "negative complements" and argues that fair use typically addresses one of three problems, which he labels the "high transaction cost, no harm" case; the "negative harm, implied consent" case (which covers such uses as book reviews and collectors' guides); and the "positive harm, productive use" case (unauthorized "transformative" use generates positive externalities). See WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 115-23 (2003). The fair use analysis as refined by Landes and Posner is helpful, though as they note the categories can overlap. Landes and Posner classify *Ty* as falling into both the second and third categories. See *id.* at 121-23.

71. See *Ty*, 292 F.3d at 518 ("A burlesque . . . is often just a humorous substitute for the original and so cuts into the demand for it: one might choose to see *Abbott and Costello Meet Frankenstein* or *Young Frankenstein* rather than *Frankenstein*, or *Love at First Bite* rather than *Dracula*, or even *Clueless* rather than *Emma*.").

72. See *id.* at 518.

court.<sup>73</sup> So does the court's further conclusion that a photograph of a Beanie Baby, standing alone, (1) is not a substitute for the original and (2) is a derivative work (a point, the court says, that the parties conceded).<sup>74</sup> Although in some particular respects the court's analysis of these latter points is probably wrong,<sup>75</sup> the broader point implicit in the court's analysis—that some derivative works are complementary to the underlying work—is probably right. If so, however, it undermines any sharp distinction between complementary, noninfringing fair uses, on the one hand, and noncomplementary, infringing uses, on the other. Consider, for example, toys, costumes,

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73. See *Blanch v. Koons*, 467 F.3d 244, 252 n.4 (2d Cir. 2006) (noting the same point made in the text, and opining that derivative works can be complementary to the original).

74. See *Ty*, 292 F.3d at 518-19.

75. For one thing, contrary to the court's (and the parties') concession, some courts classify photographs as reproductions, not derivative works. Compare *Latimer v. Roaring Toyz, Inc.*, 574 F. Supp. 2d 1265, 1273-74 (M.D. Fla. 2008) (concluding that the photographs at issue depicted, but did not transform, the photographed subject matter, and therefore were not derivative works), and *SHL Imaging, Inc. v. Artisan House, Inc.*, 117 F. Supp. 2d 301, 306 (S.D.N.Y. 2000) (same), with *Ets-Hokin v. Skyy Spirits, Inc.*, 225 F.3d 1068, 1077-81 (9th Cir. 2000) (assuming that photographs of copyrighted works would be derivative works); *Schrock v. Learning Curve Int'l, Inc.*, 531 F. Supp. 2d 990, 994-95 (N.D. Ill. 2008) (concluding that photos were derivative works), *rev'd on other grounds*, 586 F.3d 513 (7th Cir. 2009). On appeal, the Seventh Circuit in *Schrock* assumed without deciding that the photographs at issue were derivative works, and noted that the statement in *Ty* was based upon the parties' concession. See *Schrock*, 586 F.3d at 518. Determining which side of this debate is correct requires analysis, not fiat; for now, suffice to say that the correct answer is hardly intuitive. Moreover, the court's stated reason for why a photo of a Beanie Baby is not a substitute—because “[n]o one who wants a Beanie Baby, whether a young child who wants to play it or an adult (or older child) who wants to collect Beanie Babies, would be tempted to substitute a photograph,” *Ty*, 292 F.3d at 519, reflects confusion over the subject matter of copyright. Copyright protects intangible works of authorship, regardless of the nature of the material objects in which they are embodied. See *Cotter, Memes*, *supra* note 65, at 347-48. The work at issue therefore is the intangible design, not a physical object. Similarly, when the court proposed that guides are not derivative works because guides do not “recast, transform, or adapt the things to which they are guides,” *Ty*, 292 F.3d at 520, the conclusion (that guides are not derivative works) may have been right but the reasoning was not. The court seemed to think that derivative works (unlike guides) must transform some *tangible* thing, as is evident from the court's statement that “[a] guide to Parisian restaurants is not a recasting, transforming, or adapting of Parisian restaurants.” *Id.* at 521. The example is a non sequitur, because derivative works recast, transform, or adapt “preexisting works,” see 17 U.S.C. § 101 (2006), and Parisian restaurants are not “works” (although the design of the buildings they inhabit could be protected architectural works, see *id.*). The point is that whether one work is a substitute for, or a derivative work based on, another work should not depend on the tangible medium in which the original work is embodied. The work, as such, is intangible. Alternatively, perhaps the court believes that a derivative work must recast, transform, or adapt the underlying work in its entirety (or near-entirety). This would not be an implausible reading of § 101 in isolation; but it's been clear for a long time now that copyright subsists in fragments of larger works. See *Cotter, Memes*, *supra* note 65, at 332-33 & 333 n.3. As a result, there is no obvious reason why a work that quotes, say, a paragraph or two from another work cannot be a derivative work in some sense—as long as it recasts, transforms, or adapts the taken expression—but nevertheless privileged under the fair use doctrine.



and other spinoff merchandise based on a motion picture work. Assuming a sufficient degree of similarity to the original, these items surely constitute derivative works.<sup>76</sup> But they are (most likely) complementary, not substitutes for the underlying work, and absent authorization from the owner of copyright in the underlying work, they would seem unlikely to qualify as fair uses. So much for complementarity, then, as a touchstone for distinguishing fair uses from infringing derivative works.<sup>77</sup>

Toward the end of the opinion, the court seemed to switch gears and suggest that the ultimate question to be decided is how far the right to prepare derivative works extends. Or, viewed from the opposite perspective, at what point does the fair use privilege cut off the copyright owner's rights? As evidence of this shift, the court noted that Ty's motivation for filing suit may have been, in large part, to stifle criticism of its product,<sup>78</sup> and it concluded its analysis of book reviews and collectors' guides by noting that "ownership of a copyright does not confer a legal right to control public evaluation of the copyrighted work."<sup>79</sup> This issue—how far the ownership of the copyright extends—is the crucial question in determining whether a use is fair or unfair. Answering this question necessarily involves predicting consequences and applying judgment; and it cannot be avoided by the simple expedient of equating fair uses with some sort of complementary, as opposed to substitute, products. Thus, while the court probably reached the right result in remanding the fair use question for further analysis, much of the court's opinion threatens to obscure, rather than illuminate, future fair use determinations.

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76. See, e.g., *Entm't Research Group, Inc. v. Genesis Creative Group, Inc.*, 122 F.3d 1211, 1218 (9th Cir. 1997); *M.H. Segal Ltd. P'ship v. Hasbro, Inc.*, 924 F. Supp. 512, 518-20 (S.D.N.Y. 1996); *Universal City Studios, Inc. v. J.A.R. Sales, Inc.*, 216 U.S.P.Q. (BNA) 679, 680, 683 (C.D. Cal. 1982).

77. Put another way, if derivative works can be complementary to the works on which they are based, the court's assertion that "copying that is complementary to the copyrighted work . . . is fair use, but copying that is a substitute for the copyrighted work . . . or for derivative works from the copyrighted work . . . is not fair use," *Ty*, 292 F.3d at 517 (citations omitted), is internally contradictory. An unauthorized derivative work might substitute for an authorized derivative work; but the authorized derivative work itself might have been complementary to the underlying work, in which case the substitute for the authorized derivative would also stand a good chance of being complementary to the underlying work. If so, then the analysis is back to square one; there must be a way to distinguish infringing complements from noninfringing complements. Worse yet, if the analysis in the preceding paragraphs is correct, then some fair uses are not complementary in any meaningful sense either, and we still have to figure a way for distinguishing infringing substitutes from noninfringing substitutes. The utility of the substitute/complement dichotomy breaks down entirely.

78. See *id.* at 521 ("Ty wants to suppress criticism of its product in these guides.").

79. *Id.*

As for Judge Patterson's analysis, recall that he defined derivative works as transforming the underlying work "into another medium, mode, language, or revised version, while still representing the 'original work of authorship'"<sup>80</sup> while fair uses transform the purpose or function of the original.<sup>81</sup> This distinction, which Judge Patterson viewed as necessary to avoid having parodies and book reviews classified as derivative works,<sup>82</sup> fares no better than Judge Posner's distinction based on the difference between substitutes and complements. Consider, for example, a motion picture version of a novel—such a common derivative work that it is expressly mentioned in the statute.<sup>83</sup> The motion picture surely transforms the medium (from literary to film), and it might even transform the language (e.g., from Czech to English). But does it "represent" the original, or does it transform its purpose? In a sense it does both: on the one hand, it "represents" the original in the sense that (for some consumers) it stands in (substitutes) for the original,<sup>84</sup> while on the other it transforms the purpose from reading the work to viewing and hearing a dramatic, filmed performance of it. But, one could plausibly argue just the opposite for each of the two criteria. The film does not "represent" the original in the same sense that an editorial revision or annotation represents the original, after all. Even if the movie is very faithful to the book, it inevitably will add visual and aural elements that can only be described in the book; and common experience suggests that many films add entirely new elements altogether.<sup>85</sup> The reading audience and the movie-going audience therefore are never literally consuming the same work. While the two works will be substitutes for some members of each audience, for others they will be

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80. See *Warner Bros. Entm't Inc. v. RDR Books*, 575 F. Supp. 2d 513, 538 (S.D.N.Y. 2008) (citation omitted).

81. See *id.* at 539 & n.18, 540-44.

82. See *id.* at 538-39 & n.18, 540-44.

83. See 17 U.S.C. § 101 (2006).

84. Judge Patterson did not define the term "represent" in his proposed definition of a derivative work, but he appears to have drawn this criterion from the second sentence of the statutory definition, which states that "[a] work 'consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represents an original work of authorship' is also a derivative work." *Warner Bros.*, 575 F. Supp. 2d at 538 (quoting 17 U.S.C. § 101). The standard dictionary definition of the word "represent" includes such meanings as to symbolize, substitute, act as an agent for, depict or describe, or serve as an example of, the thing or person represented. See, e.g., 8 THE OXFORD ENGLISH DICTIONARY 479-80 (1st ed. 1933); RANDOM HOUSE WEBSTER'S UNABRIDGED DICTIONARY 1634-35 (2d ed. 1998).

85. Indeed, a work that does not depart from the original in any material sense would be a reproduction but arguably not a derivative work at all. See *infra* notes 132 and accompanying text.

complements. Surely many *Harry Potter* fans enjoyed both the books and the derivative movies.

Similarly, the slipperiness of the word “purpose” is evidenced from the fact that, if the word “purpose” is defined at a sufficiently abstract level, both novel and movie do indeed serve the same purpose of enabling audiences to consume the work. This maneuver assumes, however, without analysis, that the immediate purpose of consumption, rather than whatever ultimate purpose consumption itself serves, is the purpose that counts for purposes of the fair use analysis.<sup>86</sup> Consumers may have a wide variety of such ultimate purposes (entertainment, aesthetic pleasure, education, enlightenment, status or other signaling effect,<sup>87</sup> bonding<sup>88</sup>), and there is no obvious reason to expect the distribution of ultimate purposes among different classes of consumers of the novel to be identical with the distribution of ultimate purposes among different classes of consumers of the film. To be fair, defining purpose at an abstract level might enable one to distinguish some commonplace derivative works from some fair uses. The purpose of a book review, to cite one example, is to enable others to decide whether to consume the book, and a plausible purpose of *The Lexicon* was to serve as a reference for, and thus enhance the experience of consuming, the *Harry Potter* books. But unless the word “purpose” is read at a *very* abstract level, its usefulness as a point of distinction between fair use and derivative works often will not work, even if the focus is confined to immediate purposes.

To illustrate, consider once again derivative merchandise such as toys and costumes based on a fictional character. To be sure, these works transform the original from one medium to another and represent the original in the sense of symbolizing it. At the same time, however, they also transform the purpose of the original from passive consumption to active play. Describing both original and derivative as broadly fulfilling a common purpose of, say, entertainment renders the word “purpose” virtually meaningless.<sup>89</sup>

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86. See 17 U.S.C. § 107(1) (2006) (referring to “the purpose and character of the use”).

87. See generally GEOFFREY MILLER, *SPENT: SEX, EVOLUTION, AND CONSUMER BEHAVIOR* (2009) (arguing that consumer purchasing decisions often reflect evolutionary pressures to signal characteristics such as agreeability and intelligence that correlate with reproductive and social success).

88. See Cass R. Sunstein & Edna Ullmann-Margalit, *Solidarity in Consumption* 1 (Univ. of Chi. Law Sch., Working Paper No. 98, 2000), available at <http://ssrn.com/abstract=224618> (“[P]eople often express communal and membership-seeking impulses via consumption choices.”).

89. To cite another example, an abridged and an unabridged version of a novel are both intended to be read, but the purpose (narrowly construed) of the one is to convey the gist of the work to time-constrained readers while the purpose of the other is to convey the author’s

Moreover, other derivative works do not appear to transform the medium, mode, or language much at all. Each successive *Harry Potter* novel builds on the characters and events in the preceding novel or novels, but in what way do they transform the preceding works into another “medium, mode, language, or revised version,” or “represent” the original? Perhaps the answer is that recurring characters, places, and themes (as opposed to an earlier work substantially in its entirety) are re-described in the successive works, and that they continue to symbolize the same characters, places, and themes described in the original.

But now suppose that the producers of *Family Guy* decide to include a thirty-second-long animated segment that parodies some of the *Harry Potter* characters, places, and themes (something that is likely to fall within *Campbell*'s definition of a fair use). Surely the parodied characters, places, and themes are transformed in terms of medium or mode (animation) and continue to represent the original. Otherwise, the parody is not effective.<sup>90</sup> Of course, the purpose of parody is, according to *Campbell*, to critique the original,<sup>91</sup> and in this sense the works serve different purposes. Ridicule of cultural icons is still a form of entertainment, however, so the question arises of why purpose should be defined narrowly in the context of parody and broadly in the context of derivative merchandise or authorized motion picture versions. Although there may be good reasons for treating these phenomena differently, the words “represent” and “purpose” by themselves seem sufficiently flexible to permit virtually any result.

That said, even if there is no clear boundary between § 106(2) and fair use, and even if some transformations of content are fair while some uses for transformative purposes create derivative works, it could still be the case that some sort of content/purpose distinction provides at least a rough guide for distinguishing the two. Indeed, this may be a fair characterization of the courts' current thinking on the matter. In this regard, Anthony Reese's review of all of the appellate decisions addressing fair use from the Supreme Court's 1997 decision in *Campbell* through 2007 concludes that a finding of

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meaning in its entirety. The underlying (and unresolved) question is at what level of generality to define the word “purpose.”

90. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 588 (1994) (“Parody's humor, or in any event its comment, necessarily springs from recognizable allusion to its object through distorted imitation.”).

91. See *id.* at 580 (stating that “the heart of any parodist's claim to quote from existing material, is the use of some elements of a prior author's composition to create a new one that, at least in part, comments on that author's works,” but that if “the commentary has no critical bearing on the substance or style of the original composition . . . the claim to fairness in borrowing from another's work diminishes accordingly”).

transformative purpose correlates reasonably well with a finding of fair use, regardless of whether there has been a transformation of content.<sup>92</sup> By contrast, transformation of content without transformative purpose correlates with a finding of liability.<sup>93</sup> As Reese notes, however, and consistent with the analysis above, the case law still leaves open many perplexing questions, among them how the courts should determine the defendant's purpose; whether the inquiry should focus on objective or subjective purpose; how to proceed when the user has multiple purposes, or her purpose changes over time or differs from the purpose asserted by her transferee; and whether a transformative purpose is merely a purpose different from the purpose of the original author, or something more.<sup>94</sup>

### *E. Further Problems with Defining Transformativeness*

Further illustrating the difficulties of pinning down the meaning of transformative use is the emerging case law on thumbnail images. In the first such case, *Kelly v. Arriba Soft Corp.*,<sup>95</sup> the Ninth Circuit held that the unauthorized display of thumbnail images produced from noninfringing copies made available on the plaintiff's web site was privileged under the fair use doctrine.<sup>96</sup> In reaching this conclusion, the court characterized the use as transformative, despite the fact that the thumbnails were "exact replications of Kelly's images."<sup>97</sup> Whereas the plaintiff's images were "intended to inform and to engage the viewer in an aesthetic experience,"<sup>98</sup> the thumbnails were "much smaller, lower-resolution images that served an entirely different function than Kelly's original images," "unrelated to any aesthetic purpose."<sup>99</sup> More generally, the search engine's purpose is "as a tool to help index and improve access to images on the [I]nternet and their related web sites."<sup>100</sup> Similarly, in *Perfect 10, Inc. v.*

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92. See R. Anthony Reese, *Transformativeness and the Derivative Work Right*, 31 COLUM. J.L. & ARTS 467, 485-94 (2008).

93. See *id.*

94. See *id.* at 494-95.

95. 336 F.3d 811 (9th Cir. 2003).

96. See *id.* at 822.

97. *Id.* at 818.

98. *Id.*

99. *Id.*

100. *Id.* The court further reasoned that the thumbnails did not simply recast the originals in a different medium, but rather (as noted above) served a different function of "improving access to information on the internet versus artistic expression." *Id.* at 819. The court also emphasized that the thumbnails were not good substitutes for the originals, because enlarging them would sacrifice their clarity. See *id.* at 818-19, 821.

*Amazon.com, Inc.*,<sup>101</sup> the plaintiff challenged Google's unauthorized display, in response to search queries, of thumbnails (in this case, of *infringing* copies of plaintiffs' works residing on third party web sites).<sup>102</sup> The district court in *Perfect 10* had distinguished *Kelly* on the grounds that (1) Google's production of thumbnails superseded the market for reduced-size images of the plaintiff's photographs for use on cell phones; and (2) Google's use was more commercial in nature than the use in *Kelly*, insofar as the Google-produced thumbnails would, in some cases, have led users to web sites from which Google derived advertising revenue.<sup>103</sup> The Ninth Circuit noted, however, that the district court had not determined that the commercial element was significant, and had not attempted to break down the amount of Google's revenue that was attributable to web sites containing infringing content.<sup>104</sup> In addition, the Court of Appeals was not convinced that Google's use usurped an existing or foreseeable market that *Perfect 10* otherwise would have exploited: "the superseding use in this case is not significant at present: the district court did not find that any downloads for mobile phone use had taken place."<sup>105</sup> The court returned to this latter issue in connection with fair use factor four,<sup>106</sup> concluding that the "potential harm to *Perfect 10*'s market" for reduced-sized images for downloading onto cell phones "remains hypothetical."<sup>107</sup>

As will be apparent in Part II.B.4 below, I approve of the results in both *Kelly* and *Perfect 10*. The problem with the courts' reasoning, however, is that it provides no basis for determining the level of abstraction at which the parties' purposes should be compared. A search engine's use of thumbnail images to facilitate indexing and improve access is not, to be sure, identical to the use of full-size images to evoke aesthetic sensibilities. But it is surely not "unrelated to any aesthetic purpose"<sup>108</sup> either, if the point of improving indexing and access is to better enable consumers to locate and appreciate the full-size images. A thumbnail image, in other words, may not serve

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101. 508 F.3d 1146 (9th Cir. 2007).

102. *See id.* at 1155-57.

103. *See id.* at 1165-66.

104. *See id.* at 1166.

105. *Id.* In other words, some users of *Perfect 10*'s website may have downloaded content for cell phone use, but there was no evidence that consumers were using the Google-generated thumbnails for that purpose. *See id.* at 1165-66, 1168.

106. That is, "the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107(4) (2006).

107. *Perfect 10*, 508 F.3d. at 1168.

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

the same immediate purpose as the original, but it may assist in serving the same ultimate purpose. Distinguishing between immediate and ultimate purposes may well be relevant to matters (such as foreseeability, incentives, and control over new product or service markets) that can assist in determining whether the “harm” asserted by the copyright owner should be cognizable. Merely noting that two uses serve different immediate purposes, however, raises the question of why attention should focus on immediate and not ultimate purposes.

Yet another recent case addressing the meaning of transformativeness is *Gaylord v. United States*.<sup>109</sup> In 1995, sculptor Frank Gaylord completed a work titled *The Column*, comprised of nineteen statues representing a platoon of soldiers, for inclusion in the Korean War Veterans Memorial in Washington, D.C.<sup>110</sup> Gaylord retained his copyright interest in the work.<sup>111</sup> In 1996, photographer John Alli photographed the sculpture during a snowstorm; Alli subsequently authorized the U.S. Postal Service to use the photo on a stamp commemorating the fiftieth anniversary of the Korean War armistice.<sup>112</sup> Gaylord thereafter filed suit against the Postal Service in the United States Court of Federal Claims, demanding reasonable compensation for copyright infringement pursuant to 28 U.S.C. § 1498(b).<sup>113</sup> The court concluded that the Postal Service had copied Gaylord’s work<sup>114</sup> but concluded that the use was fair, noting at great length in particular its transformative character:

Here, while both the Stamp and “The Column” are intended to honor the veterans of the Korean War, the Stamp is transformative, providing a different expressive character than “The Column.” The artistic expression of “The Column” can be summarized as a three-dimensional sculptural snapshot of a group of soldiers on an undefined mission during the Korean War, captured as a single moment in time. Mr. Alli, through his photographic talents, transformed this expression and message, creating a surrealistic environment with snow and subdued lighting where the viewer is left unsure whether he is viewing a photograph of statues or actual human beings. The viewer experiences a feeling of stepping into the photograph, being in Korea with the soldiers, under the

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109. 85 Fed. Cl. 59 (Fed. Cl. 2008), *rev’d in part, aff’d in part*, 595 F.3d 1364 (Fed. Cir. 2010).

110. *See Gaylord*, 85 Fed. Cl. at 62-63.

111. *See id.* at 63.

112. *See id.* at 63-64.

113. *See id.* at 64-65. For copyright infringement committed by the United States government, the owner’s only recourse is a suit for reasonable compensation in the Court of Federal Claims. 28 U.S.C. § 1498(b) (2006).

114. The court did not address the question of whether the copying also amounted to the preparation of a derivative work. The court’s discussion of fair use, however, as discussed in the text above, suggests that the work could be characterized as “recasting” the original, even if (as some courts have held, *see supra* note 75) literal photographic depictions of copyrighted works qualify only as reproductions.

freezing conditions that many veterans experienced. Mr. Alli took hundreds of pictures of “The Column” before he achieved this expression, experimenting with angles, exposures, focal lengths, lighting conditions, as well as the time of year and day. Mr. Alli also achieved his vision using various photographic effects and equipment. Mr. Alli’s efforts resulted in a work that has a new and different character than “The Column” and is thus a transformative work. The Postal Service further altered the expression of Mr. Gaylord’s statues by making the color in the “Real Life” photo even grayer, creating a nearly monochromatic image. This adjustment enhanced the surrealistic expression ultimately seen in the Stamp by making it colder. Thus, the Postal Service further transformed the character and expression of “The Column” when creating the Stamp.<sup>115</sup>

With respect to the fourth factor, the court concluded that the stamp had little impact upon *The Column*’s potential market, noting first that the photographic depiction increased the value of the underlying work.<sup>116</sup> The court also perceived no harm to any market for derivative works based upon the original, given that (1) Gaylord himself never sold any photos, postcards, magnets, or key chains depicting the work; (2) Gaylord’s only attempt to commercialize the work occurred in connection with the sale several years earlier of miniature copies of some of the figures, which did not sell well and the molds for which had been destroyed; and (3) a 1 ½ inch stamp would be an inadequate substitute for the sculpture itself or any future products Gaylord might have sold.<sup>117</sup>

On appeal, the Federal Circuit reversed the lower court’s fair use determination.<sup>118</sup> Significantly, the Federal Circuit accepted the Court of Claims’ determination that the use did not threaten any market harm to the copyright owner.<sup>119</sup> Nevertheless, the Federal Circuit concluded that the use was unfair because, among other things, it was *not* transformative.<sup>120</sup> In particular, the court took issue with the lower court’s characterization of the use as transforming the character of the original.<sup>121</sup> The court did not suggest, however, that

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115. *Gaylord*, 85 Fed. Cl. at 68-69 (citations omitted).

116. *See id.* at 70. In *Campbell*, however, the Supreme Court noted in dictum that evidence that the defendant’s use had increased the market for the plaintiff’s work “is no guarantee of fairness. Judge Leval gives the example of the film producer’s appropriation of a composer’s previously unknown song that turns the song into a commercial success; the boon to the song does not make the film’s simple copying fair.” *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 n.21 (1994) (citing Leval, *supra* note 5, at 1124 n.84).

117. *See Gaylord*, 85 Fed. Cl. at 70-71.

118. *See Gaylord v. United States*, 595 F.3d 1364 (Fed. Cir. 2010).

119. *See id.* at 1375 (affirming conclusion that the stamp did “not adversely impact Mr. Gaylord’s efforts to market derivative works”).

120. *See id.* at 1373 (concluding that the appropriate place to focus was on the purpose of the stamp, not the photograph). *But cf. id.* at 1385 (Newman, J., dissenting) (arguing for deferring to the Court of Claims’s finding of transformativeness).

121. *See id.* at 1373-74 (concluding that the stamp did not transform the character of the sculpture).



transformation as to character or content is irrelevant, thus leaving open the possibility that a work that transforms content to a greater degree than the postage stamp image at issue in *Gaylord* might qualify as a transformative use.<sup>122</sup> In addition, the court concluded that the use did not transform the purpose of the original, because both were intended to honor Korean War veterans.<sup>123</sup> Perhaps the court also might have added that, unlike the thumbnail images at issue in *Kelly* and *Perfect 10*, both the original sculpture and the postage stamp image were intended to provide some immediate aesthetic gratification. On the other hand, a 1 ½ inch postage stamp probably reduces the visual image of the original sculptural work to a greater extent than a thumbnail image reduces the visual image of a photograph housed on a website. Still, it may be that the aesthetic reactions caused by the stamp and the sculpture may differ just as much in degree as the aesthetic reactions caused by thumbnails and full-size photos. The appropriate level of generality at which to focus the analysis remains uncertain.

Whether other courts will follow the Court of Claims's expansive approach to transformativeness, or the Federal Circuit's somewhat more constrained approach, also remains to be seen. While the Court of Claims's approach, if taken to its logical conclusion, arguably could lead to the untenable position that all derivative works are transformative, the Federal Circuit's resolution of the fair use defense raises its own difficulties.<sup>124</sup> To avoid the risk inherent in the

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122. Does this possibility itself threaten to transform judges into art critics? Perhaps not, if courts focus more on quantitative than on qualitative changes, but the majority opinion in *Gaylord* does not inspire confidence:

We conclude that the stamp does not transform the character of The Column. Although the stamp altered the appearance of The Column by adding snow and muting the color, these alterations do not impart a different character to the work. To the extent that the stamp has a surreal character, The Column and its soldiers themselves contribute to that character. Indeed, the Penn State Team suggested that the Memorial have a "dream-like presence of ghostly figures." Capturing The Column on a cold morning after a snowstorm—rather than on a warm sunny day—does not transform its character, meaning, or message. Nature's decision to snow cannot deprive Mr. Gaylord of an otherwise valid right to exclude.

*Id.* Bleistein is interpreted as holding that judges shouldn't aspire to be art critics. See Cotter, *Memes*, *supra* note 65, at 377 ("Conventional wisdom, however, suggests that copyright law should be content-neutral for the reasons famously stated by Justice Holmes--principally, that judges are not competent art critics and therefore are likely to undervalue both unconventional and popular art" (citing *Bleistein v. Donaldson Lithographic Co.*, 188 U.S. 239, 251-52 (1903))).

123. See *id.* at 1373 (concluding that the purpose of the stamp was not transformative because the sculpture and the stamp shared a common purpose of honoring Korean War veterans).

124. In particular, if the Federal Circuit's premise of no harm to the copyright owner is correct, its conclusion that the use nevertheless was unfair because it was nontransformative makes little policy sense. As argued below in Part II, the overriding fair use consideration should

Court of Claims approach, *Ty* and *Warner Bros.* propose a sharp distinction between § 106(2) rights and the fair use privilege, but as argued above that distinction does not always hold. Perhaps the problem is intractable. At the end of the day, characterizing a use as transformative may be nothing more than a conclusion based on some unconscious, inarticulable balancing of social costs and benefits. An effort to resolve fair use issues more transparently nevertheless would be an improvement over the status quo, even if many applications of the doctrine will remain difficult to resolve. In particular, all fair use cases necessarily rest upon some understanding, albeit often implicit and unspoken, as to what constitutes cognizable harm for copyright purposes. A regime that focused more clearly on whether certain harms *ought* to be remediable would at least bring the relevant policy issues to the surface. Transformation as to content or purpose, and at what level of abstraction, would remain relevant to the inquiry in many instances but would no longer occupy such a central role. The next part sketches out the proposed framework.

## II. COGNIZABLE HARM AND TRANSFORMATIVE USE

In its discussion of fair use, the Supreme Court in *Campbell* observed that copying for purposes of making a substitute for the original causes “cognizable harm,” whereas copying for purposes of making a lethal parody or scathing theater review does not.<sup>125</sup> A few other courts, typically quoting *Campbell*, also have made passing references to cognizable harm,<sup>126</sup> but, within copyright jurisprudence,

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be whether the use at issue threatens the copyright owner with harm of the type the copyright system was intended to prevent. As a result, whether the government’s refusal to pay Gaylord for the use at issue caused him to suffer cognizable harm should be the central question of the fair use analysis, resolution of which may depend on a variety of considerations (effect on incentives, relevance if any of moral rights, and so on). An adequate discussion of cognizable harm therefore should consider not only whether the government’s use affected Gaylord’s ability to market *other* derivative works, but also on whether affording Gaylord compensation for the *specific* derivative work at issue in the case would promote or undermine sound copyright policy. Assuming for the sake of argument that the courts’ conclusion that Gaylord suffered no harm (or, as I might put it, cognizable harm) is correct, however, the question of transformativeness should be moot. No cognizable harm, no copyright violation.

125. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 591-92, 593 n.24 (stating that copying for purposes of making a substitute for the original causes cognizable harm, whereas copying for purposes of making a lethal parody or scathing theater review does not).

126. See, e.g., *Blanch v. Koons*, 467 F.3d 244, 254 (2d Cir. 2006); *Video Pipeline, Inc. v. Buena Vista Home Entm’t, Inc.*, 342 F.3d 191, 202-03 (3d Cir. 2003) (concluding that defendant’s streaming of video clips over the internet caused “cognizable market harm”); *SunTrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1291 (11th Cir. 2001) (Marcus, J., concurring) (noting the importance of analyzing cognizable harm); *Sony Computer Entm’t Am., Inc. v. Bleem, LLC*, 214

the concept nevertheless remains largely underappreciated. As Balganesch and Bohannan (among others) have pointed out,<sup>127</sup> this state of affairs contrasts with standard uses of the concept of cognizable harm in other bodies of law. Tort law doctrines such as proximate cause and limitations on the recovery of noneconomic damages, for example, can be thought of as embodying the principle that certain harms flowing from a defendant's breach of duty should not be compensable for various policy reasons.<sup>128</sup> The same goes for contract law's limitations on the recovery of consequential damages.<sup>129</sup> Perhaps the closest analogy to the concept I wish to develop here, however, lies within the law of antitrust. Under the doctrine of antitrust injury, private antitrust litigants "must prove more than injury causally linked to an illegal presence in the market. Plaintiffs must prove antitrust injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful."<sup>130</sup> Only injuries to the competitive process, in other words, are cognizable under antitrust law.<sup>131</sup> The overarching question that courts should be asking in

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F.3d 1022, 1029 (9th Cir. 2000) (noting that not all harm to a copyrightable work's market is "cognizable harm under the Copyright Act").

127. See, e.g., Balganesch, *supra* note 13, at 1573-75; Bohannan, *Copyright Harm*, *supra* note 14, at 984-85.

128. W. PAGE KEETON ET AL., PROSSER AND KEETON ON THE LAW OF TORTS § 41, at 264 (5th ed. 1984) (explaining that proximate cause is "merely the limitation which the courts have placed upon the actor's responsibility for the consequences of the actor's conduct" and that social policies and ideas of justice provide the basis for limiting legal responsibility); Balganesch, *supra* note 13, at 1594-96; F. Patrick Hubbard, *The Nature and Impact of the "Tort Reform" Movement*, 35 HOFSTRA L. REV. 437, 496 (2006) ("The only area of agreement [among states] seems to be that limitations on the maximum amount recoverable are the way to reform awards of noneconomic damages.").

129. See, e.g., Balganesch, *supra* note 13, at 1596.

130. *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 489 (1977). Relatedly, antitrust defendants can prevail under rule of reason scrutiny only when, inter alia, they proffer precompetitive justifications that are both plausible and cognizable. *In re PolyGram Holding, Inc.*, 136 F.T.C. 310 (2003). A cognizable justification is one that is consistent with the purposes of antitrust; a justification premised on the belief that competition is undesirable would not be cognizable. See *id.* at 346-47.

131. See *Brunswick Corp.*, 429 U.S. at 489 (holding that antitrust injury "should reflect the anticompetitive effect either of the violation or of anticompetitive acts made possible by the violation."). The concept of cognizable harm also may lie at the root of the "trademark use" doctrine that is currently the subject of vigorous debate among trademark scholars. See Mark P. McKenna, *Trademark Use and the Problem of Source*, 2009 U. ILL. L. REV. 773, 797 (2009) (arguing that, under the trademark use doctrine, "liability attaches only for uses that cause a particular type of confusion—source confusion."); see also Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s* (unpublished manuscript, on file with author) (arguing in favor of a concept of "trademark injury"). Roger Blair and I also have argued that the concept of cognizable harm factors into the analysis of what types of losses resulting from patent infringement are

resolving fair use disputes is whether the use at issue threatens the plaintiff with harm of the type the copyright laws were intended to prevent, i.e., cognizable harm.<sup>132</sup> Transformativeness as to content or purpose may be relevant to this question, but it should not be the focus of the inquiry. In sketching out the contours of a theory of cognizable harm, I begin with a brief discussion of the purposes that lie behind copyright, the right to prepare derivative works, and fair use. I then elaborate on the concept of cognizability and its relation to transformative use.

### A. Copyright, Derivative Works, and Fair Use

#### 1. The Purposes of Copyright

To develop a theory of cognizable harm requires an initial inquiry into the purposes of copyright law. This is no easy task. Traditionally, the dominant view among copyright scholars within the United States has been that copyright should be viewed as a means to the end of encouraging the creation and distribution of works of authorship.<sup>133</sup> On this view, copyright doctrine should be judged in light of how well, or how poorly, it maximizes the surplus of social benefits of creation and distribution over the social costs (transaction costs, monopoly costs, and so on).<sup>134</sup> As I have argued elsewhere, although this instrumental view is highly persuasive when pitched at a sufficiently abstract level, determining how best to implement it in the form of concrete and coherent legal standards is maddeningly difficult, and perhaps impossible.<sup>135</sup> Nevertheless, copyright doctrine,

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compensable. See ROGER D. BLAIR & THOMAS F. COTTER, *INTELLECTUAL PROPERTY: ECONOMIC AND LEGAL DIMENSIONS OF RIGHTS AND REMEDIES* 245 (2005).

132. Christina Bohannon and Herb Hovenkamp have drawn the very same analogy between antitrust injury and copyright harm. See Bohannon & Hovenkamp, *supra* note 14, at 61-69.

133. See Cotter, *Memes*, *supra* note 65, at 332.

134. See *id.*

135. For example, is the production and dissemination of creative expression desirable principally because it promotes *speaker* autonomy and self-expression (and, if so, is the interest in promoting speaker autonomy and self-expression an end in itself or merely instrumental to some further goal or goals)? Is it desirable because it enables readers, viewers, and listeners to satisfy their preferences, or because it enables them to develop their own autonomy and personal identity, or to become more educated citizens (or some combination of all of these)? Does copyright promote (or impede) longer-term technological progress or human flourishing? Should copyright doctrine focus on encouraging the production and dissemination of creative works in a quantitative sense only (and if so, at what cost?), or should doctrine take into account the effects of the copyright system on the diffusion of expression, or on its quality or diversity? See *generally id.* at 333, 360-68 (discussing the relevant aspects of a comprehensive instrumental approach to

whenever possible, should be interpreted so as to minimize the risk that the exercise of copyright rights will reduce creative expression—that it will inhibit, rather than promote, people’s abilities to express themselves and to participate in dialogue with others. Problematically, it is possible that a good deal of standard copyright doctrine has precisely the effect of inhibiting expression,<sup>136</sup> if so, much of the perceived tension between copyright and the First Amendment may be largely intractable. Similarly, to the extent (if any) that copyright doctrine reflects noninstrumental concerns such as rewarding authors for their investment of labor<sup>137</sup> or personality (by vindicating authors’ “moral rights” in the integrity of their work, for example),<sup>138</sup> it may be impossible to reconcile some aspects of copyright doctrine with the premise that copyright promotes more speech than it impedes. Be that as it may, for present purposes, I will assume that copyright generally should be interpreted, whenever possible, in a manner consistent with the First Amendment goal of encouraging speech, and not as a tool of censorship.<sup>139</sup> The question for present purposes is what the right to prepare derivative works adds to the mix, and where fair use fits in.

## 2. Derivative Works

Turning next to the right to prepare derivative works, it may be helpful initially to consider how the right differs from the reproduction right. The short answer is often “not much,” because the reproduction right itself has expanded so much over the years. Until changes began to take hold in the mid- to late-nineteenth century, courts generally construed the copyright owner’s rights (to “print,

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copyright law and the attendant difficulties in precisely formulating and implementing such an approach).

136. If the social costs of copyright generally outweigh the social benefits, it would follow that copyright is on net more likely to inhibit than to promote speech. But no one knows how to quantify the various costs and benefits, and as noted above there is not even a consensus on what should count as a cost or benefit. Less abstractly, it may be the case that standard copyright doctrine undervalues the First Amendment interest in some forms of literal copying, see Tushnet, *supra* note 10, at 565-86, as well as the preparation of unauthorized derivative works, see Jed Rubenfeld, *The Freedom of Imagination: Copyright’s Constitutionality*, 112 YALE L.J. 1, 16-21 (2002). For present purposes, this Article offers no evaluation of these claims.

137. See Cotter, *Memes*, *supra* note 65, at 402 (reviewing and critiquing Lockean labor theory as a basis for copyright).

138. See generally Thomas F. Cotter, *Pragmatism, Economics, and the Droit Moral*, 76 N.C. L. REV. 1 (1997).

139. See *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 545-46, 555-60 (1985) (viewing copyright and the First Amendment as generally working in tandem “to increase and not to impede the harvest of knowledge”).

reprint, publish, and vend”) to cover only verbatim or near-verbatim copying of a work, substantially in its entirety.<sup>140</sup> Over time, however, the scope of the reproduction right has expanded to the point where copying even relatively small fragments of expression, or such nonliteral elements as plot and characters, can constitute a violation of the reproduction right.<sup>141</sup> Given these developments, the right to prepare derivative works might not seem to add much at all to the copyright owner’s bundle of rights. But the right may confer a few additional benefits on copyright owners in some discrete cases. Historically, the gradual inclusion within copyright law of rights to prepare certain types of derivative works (for example, dramatizations), culminating in the general right to prepare “derivative works” in the 1976 Act, may have acted as a catalyst for more expansive interpretations of the reproduction right as well.<sup>142</sup> Even today, there may remain some instances in which a work that is based on an earlier copyrighted work is insufficiently similar to that earlier work to violate the copyright owner’s reproduction right, and yet similar enough to violate the owner’s right to prepare derivative works.<sup>143</sup> Just how far the right to prepare derivative works extends

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140. See, e.g., *Stowe v. Thomas*, 23 F. Cas. 201, 208 (C.C.E.D. Pa. 1853) (No. 13,514) (holding that an unauthorized translation of UNCLE TOM’S CABIN into German did not violate the author’s right of printing, reprinting, publishing or vending, and suggesting that an unauthorized dramatization would not infringe either); Leslie A. Kurtz, *Speaking to the Ghost: Idea and Expression in Copyright*, 47 U. MIAMI L. REV. 1221, 1226 (1993) (“[C]opyright initially protected a work against literal copying only; abridgements, translations and dramatizations did not infringe an author’s copyright.” (citation omitted)).

141. See, e.g., Derek E. Bambauer, *Faulty Math: The Economics of Legalizing the Grey Album*, 59 ALA. L. REV. 345, 359 (2008); Christina Bohannon, *Reclaiming Copyright*, 23 CARDOZO ARTS & ENT. L.J. 567, 599 n.125 (2006).

142. See Rubinfeld, *supra* note 136, at 49-52 (describing the increasingly expansive scope of copyrights, the development of derivative rights, and the broad interpretation given to the reproduction right).

143. See *Castle Rock Entm’t, Inc. v. Carol Publ’g Group, Inc.*, 150 F.3d 132, 143 (2d Cir. 1998). In a similar vein, Professor Goldstein posits a continuum stretching “from an underlying novel or story to the work’s adaptation into a motion picture, its transformation into a television series, and the eventual embodiment of its characters in dolls, games and other merchandise.” Paul Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. COPYRIGHT SOC’Y U.S.A. 209, 217 (1983). He asserts that

[W]orks at the outer reaches of this continuum, and some intermediate works as well, will frequently bear scant resemblance to the expression or the ideas of the seminal work and will often be connected only by license authorizing use of a title or character name.

This analysis offers some help in identifying the point at which the right ‘to reproduce the copyrighted work in copies’ leaves off and the right ‘to prepare derivative works based upon the copyrighted work’ begins: It is that point at which the contribution of independent expression to an existing work effectively creates a new work for a different market.

*Id.*

beyond the reproduction right nevertheless remains something of a mystery; in this context, at least, the case law today usually does not sharply distinguish the two rights.

In a few other contexts, however, the right to prepare derivative works appears to cover some unauthorized uses that the reproduction right does not reach; and, on occasion, a work's status as a derivative work, as opposed to merely a reproduction, can have remedial or other significance. For example, whereas the reproduction right is infringed only by the making of "fixed" copies,<sup>144</sup> some courts have suggested that the right to prepare derivative works can be infringed by the preparation of unfixed works.<sup>145</sup> In addition, the

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144. See 17 U.S.C. § 106(1) (2006) (stating that, subject to exceptions, the copyright owner has the exclusive right "to reproduce the copyrighted work in copies or phonorecords"). Phonorecords "are material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed." *Id.* § 101. Copies "are material objects, other than phonorecords, in which a work is fixed." *Id.* Thus, a person violates the reproduction right by making an unauthorized fixation. See *id.* (stating that "[a] work is 'fixed' in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.").

145. See *Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc.*, 964 F.2d 965, 967-69 (9th Cir. 1992) (stating that derivative works "must be fixed to be *protected* under the [Copyright] Act, but not to *infringe*," but also that derivative works "must incorporate a protected work in some concrete or permanent form" (citation omitted) (emphasis in original)); see also *Micro Star v. FormGen Inc.*, 154 F.3d 1107, 1112 (9th Cir. 1998) (holding that audiovisual displays generated by defendant's product "assume[d] a concrete or permanent form in the MAP files," and thus were derivative works). *Galoob* seems to envision the existence of unfixed but "concrete or permanent" embodiments. "Fixation," however, only requires that the work be embodied in a manner "sufficiently permanent to stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." 17 U.S.C. § 101. Compare *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121, 127-30 (2d Cir. 2008) (holding that storage of data on a buffer for 1.2 seconds or less was too transitory to amount to a fixation), *cert. denied*, 129 S. Ct. 2890 (2009), with *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517-18 (9th Cir. 1993) (holding that temporary fixation in RAM qualified as a fixation under § 101). In this light, the *Galoob* court's fine distinction between fixed and "concrete or permanent embodiments" is a bit reminiscent of the (possibly apocryphal) scholastic debate over how many angels can dance on the head of a pin.

For what it's worth, the text of the Copyright Act provides conflicting clues to the question of whether derivative works must be fixed (or concrete or permanent, for that matter) to infringe. On the one hand, the Act defines a derivative work as a type of "work," 17 U.S.C. § 101 (definition of "derivative work"), and it states that "[a] work is 'created' when it is fixed in a copy or phonorecord for the first time." *Id.* On the basis of this language, one might conclude that derivative works, like works generally, must be fixed. On the other hand, § 301(b)(1) states that "[n]othing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to . . . works of authorship not fixed in any tangible medium of expression." *Id.* § 301(b)(1). This provision preserves state common-law copyright in unfixed works such as improvised musical and choreographic works. See Thomas F. Cotter, *Toward a Functional Definition of Publication in Copyright Law*, 92 MINN. L. REV. 1724, 1730 n.22 (2008). Possibly, then, the definition of "created" in § 101 refers only to when a work is "created," and thus protected, for purposes of federal copyright protection, see 17 U.S.C. § 302 (stating that, in general, copyright in works "created on or after January 1, 1978, subsists from . . . creation"),

substantial modification of an existing copy might constitute the preparation of an unauthorized derivative work;<sup>146</sup> it would not appear to constitute a reproduction under § 106(1), however, unless a new copy is made.<sup>147</sup> On the other hand, according to some authorities, a work can qualify as a derivative work only if it reflects some degree of originality.<sup>148</sup> If this interpretation is correct, a work that lacks sufficient originality could be a reproduction but not a derivative work—and sometimes, the classification of an allegedly infringing work as either a reproduction or as a derivative work carries practical consequences. In some cases, the Copyright Act permits a person who lawfully prepared a derivative work, either pursuant to a transfer of the copyright owner's interest or during a time when the copyright had temporarily fallen into the public domain, to continue exploiting the work after transfer is terminated or after the copyright is restored to the owner.<sup>149</sup> If, on the other hand, the work is a reproduction and

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and should not be understood as standing for the proposition that “works,” including derivative works, must be *fixed* in order to be works.

146. See *Gilliam v. Am. Broad. Cos.*, 538 F.2d 14, 24 (2d Cir. 1976); *Compare* *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1342-44 (9th Cir. 1988) (holding that cutting pictures from book and gluing them onto tiles created derivative work), *with* *Lee v. A.R.T. Co.*, 125 F.3d 580, 581-83 (7th Cir. 1997) (holding that similar conduct did not constitute preparation of an unauthorized derivative work, but recognizing that in some instances modifications may result in the production of a new work “so different” from the original as to violate § 106(2)).

147. See 17 U.S.C. § 106(1) (stating that, subject to exceptions, the copyright owner has the exclusive right “to reproduce the copyrighted work in copies or phonorecords” (emphasis added)).

148. See *Lee*, 125 F.3d at 581-82 (noting the split of authority on this issue). As with the fixation issue discussed above, *see supra* note 145, the text of the Copyright Act provides mixed signals. On the one hand, in defining the term “derivative work,” the Copyright Act states that “[a] work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a ‘derivative work.’” 17 U.S.C. § 101. On the other, one might argue that the reference to “an original work of authorship” relates only to the copyrightability of derivative works, *see id.* § 103(b), and that an infringing derivative work need not be sufficiently original to sustain its own separate copyright, if its use of the underlying work were lawful. See *Lewis Galoob Toys, Inc.*, 964 F.2d at 968 (holding that derivative works need not satisfy the statutory requirements of copyrightability, including originality, to infringe); *Lone Ranger Television, Inc. v. Program Radio Corp.*, 740 F.2d 718, 722 (9th Cir. 1984); *cf. Goldstein, supra* note 143, at 231 n.75 (1983) (“[T]he Act does not require that the derivative work be protectable for its preparation to infringe.”).

149. See 17 U.S.C. § 104A(d)(3) (permitting a reliance party to continue exploiting a derivative work that is based on a restored work and that was created before the date of copyright restoration, if the reliance party pays reasonable compensation); *id.* § 203(b)(1) (permitting the continued utilization of a derivative work prepared under authority of a grant of a transfer or license of copyright, prior to the termination of that transfer under § 203(a), in accordance with the terms of the grant); *id.* §§ 304(c)(6)(A), (d) (similar to Section 203(b)(1), with respect to transfers effected prior to January 1, 1978); *see also* *Dam Things from Den. v. Russ Berrie & Co.*, 290 F.3d 548, 563-66 (3d Cir. 2002) (discussing whether defendant's troll doll constituted a derivative work or a reproduction, for purposes of determining whether §



not a derivative work, a court may enjoin the unauthorized use.<sup>150</sup> There may be other situations, as well, in which the classification carries practical consequences—for example, when a copyright owner assigns or licenses one right but not the other.<sup>151</sup>

Justifications for the exclusive right to prepare derivative works are numerous, though none of them provides an unassailable rationale. First, it is possible that the right to prepare derivative works provides an added incentive to create and to publish, beyond that which would exist if copyright entailed only a reproduction

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104A(d)(3) entitled the defendant to continue marketing the doll after the restoration of plaintiff's copyright in the underlying work). *But see* Golan v. Holder, 611 F. Supp. 2d 1165 (D. Colo. 2009) (concluding that the law restoring terminated copyrights to qualifying foreign authors is unconstitutional). Perhaps the fact that the statute contemplates what is, in effect, a compulsory licensing scheme for existing derivative works in these circumstances is itself some evidence that Congress intended for derivative works generally (not just copyrightable derivative works) to manifest some degree of originality. If a work that was only trivially different from the underlying work qualified as a derivative work, the scheme embodied in §§ 104A(d)(3), 203(b)(1), 304(c)(6)(A), and 304(d), would come into play (at least marginally) more often. To the extent that scheme departs from typical copyright remedial practice (in which courts have discretion to award injunctive relief, *see* 17 U.S.C. § 502 (2006)), Congress may not have intended for it to be trivially easy for users to invoke those provisions.

150. *See Dam Things*, 290 F.3d at 563.

151. Another set of cases in which some courts have posited practical consequences involve the question, noted above, of whether a photographic depiction of a copyrighted work qualifies as a derivative work or only as a reproduction. *See supra* note 75. Conceivably, the classification of the photograph as a reproduction or as a derivative work might matter for two reasons in addition to those noted above. First, for copyright to subsist in a derivative work, the derivative work must reflect some degree of originality; in addition, copyright will not extend to any portion of the derivative work in which the underlying work has been used unlawfully. *See* 17 U.S.C. §§ 103(b)(1), (2) (2006). A photographer-plaintiff asserting a claim against someone who allegedly copied her photograph therefore might need to show that her work is an original, copyrightable derivative work, and not merely a reproduction. Indeed, some courts might impose a higher originality requirement with respect to derivative works as opposed to works generally, though this appears to be a disfavored view. *See, e.g.,* Schrock v. Learning Curve Int'l, Inc., 586 F.3d 513, 520-21 (7th Cir. 2009) (rejecting the argument, based on prior Seventh Circuit case law, that derivative works “are subject to a higher standard of originality”); *see also* 1 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 2.16.2 (1989) (“Courts apply the same requirement[] of originality . . . to derivative works that they apply to copyright subject matter generally.”). Second, in some cases, the defendant has argued that the photograph at issue lacks copyright protection as a derivative work because the photographer used the underlying work without permission. *See* Latimer v. Roaring Toyz, Inc., 574 F. Supp. 2d 1265, 1274-75 (M.D. Fla. 2008). In response, however, the photographer could point out that copyright extends to any original portion of the work that is not “tainted” by the unauthorized use of the underlying work. *See* 17 U.S.C. § 103(a). Assuming there is such a portion, it is not clear why the outcome should depend on the characterization of the photographer's unlawful use of the underlying work as a violation of § 106(1) or 106(2). Even if it is a violation of § 106(1), the photographer should still be able to assert copyright in the original-and-untainted portions of her work. In other words, although the existence of original material *not* derived from the underlying work might suggest that the photograph *is* a derivative work, it remains unclear why liability for the defendant's reproduction of the original-and-untainted portions of the photograph should hinge on that characterization.

right.<sup>152</sup> Given the relatively limited circumstances under which the right to prepare derivative works extends beyond the reproduction right, however, the impact of this incentive effect is probably minimal for most works.<sup>153</sup> Relatedly, the right to prepare derivative works may provide an incentive to create the *type* of works that are likely to generate spinoffs<sup>154</sup>—though again, the incentive effect may be modest and, in addition, opinions may vary as to whether copyright serves or diserves the public interest by encouraging spinoffs.<sup>155</sup> Second, in theory, the derivative works right might reduce certain congestion externalities or coordination problems—though the evidence in support of this rationale is not overwhelming either.<sup>156</sup> Third, a right to prepare derivative works can sometimes provide authors with a quasi-moral-right entitlement to prevent unauthorized modifications of their works that might not fall within the scope of the reproduction right (as in *Gilliam*).<sup>157</sup> Again, whether this is viewed as a social benefit depends on one's views as to the merits of moral-rights-type laws.

### 3. Fair Use

Turning attention now to fair use, the doctrine can be viewed as serving two principal purposes. First, there is the standard transaction-cost rationale: namely, that fair use permits the user to engage in the unauthorized and otherwise actionable use of a copyrighted work in circumstances in which, but for the presence of transaction costs, the user and the copyright owner would have agreed to a license (possibly, though not necessarily, free of charge).<sup>158</sup> Second—and more relevant to the present discussion—is the positive externalities rationale.<sup>159</sup> To illustrate, suppose that the copyright owner is willing to license the use of its work to the would-be user for

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152. See Cotter, *Overenforcement*, *supra* note 23, at 1296 (noting this as a possible, though unlikely, rationale).

153. See Stewart E. Sterk, *Rhetoric and Reality in Copyright Law*, 94 MICH. L. REV. 1197, 1216 (1996); *cf.* Cotter, *Overenforcement*, *supra* note 23, at 1296 n.67 (“[P]ermitting the unauthorized creation of derivative works that might substitute for the underlying work would tend to undermine incentives to produce underlying works.”).

154. See GOLDSTEIN, *supra* note 151, at § 5.3.

155. See Cotter, *Memes*, *supra* note 65, at 398-401; *see also* Sterk, *supra* note 153, at 1217 (noting the possibility that a right to prepare derivative works might conserve on transaction costs to the extent it renders unnecessary the question of whether, for example, a translation goes so far as to violate the reproduction right).

156. Cotter, *Overenforcement*, *supra* note 23, at 1296 n.68.

157. 538 F.2d 14 (2d Cir. 1976).

158. See Cotter, *Overenforcement*, *supra* note 23, at 1277-79.

159. See *id.* at 1280-83.

one thousand dollars, but that the would-be user expects to derive one hundred dollars in private benefits from the use. The fact that the parties will not agree to a license is not necessarily indicative of market failure. More specifically, if one assumes that the copyright system generally increases social welfare by according exclusive rights to authors, the fact that the author or copyright owner chooses to exercise those rights normally should not be reason for alarm.<sup>160</sup> But now assume that the use at issue would generate positive social externalities in the amount of five thousand dollars. If the user cannot appropriate a portion of these benefits in excess of one thousand dollars (the owner's reservation price), then in the absence of a fair use defense, the user will forgo the use and the benefits will be lost. In this example, forgoing the use is socially suboptimal; the social benefits outweigh the social costs in the amount of four thousand dollars. Generalizing from this example, invoking the fair use doctrine in cases in which the positive externalities flowing from the use are likely to outweigh the copyright owner's harm would enhance social welfare.<sup>161</sup>

Nevertheless, the positive externalities rationale comes with plenty of caveats. First, any permitted unauthorized uses weaken the copyright incentive scheme (however slightly) and thus, in theory, could impact the production and dissemination of future works. Strictly speaking, then, the positive externalities rationale for fair use should only apply when the net effect on social welfare, taking into account possible harms (and benefits, if any) to dynamic as well as static efficiency, is positive.<sup>162</sup> Second, the resort to fair use lessens the incentive of private entities to develop other mechanisms for stimulating positive externalities. In theory, some of these other mechanisms might be preferable to fair use (though it is hard to know if they are never developed).<sup>163</sup> Third, nothing in the model requires that the use be (effectively) at a licensing rate of zero. Social welfare would be just as high if the user compensated the plaintiff up to the amount of the user's private benefit (though, as a practical matter, the administrative and error costs of trying to enforce such a system might outweigh any benefits).<sup>164</sup> Fourth, translating the theory into a workable legal standard is, to say the least, not easy. Courts that are

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160. Of course, the assumption may be false; copyright rights may be too expansive in scope, or their term too long. Deploying the fair use doctrine to second-guess other aspects of the copyright system, however, is illegitimate. *See id.* at 1273-75, 1317.

161. *See id.* at 1280-81; *see also* LANDES & POSNER, *supra* note 70, at 122-23.

162. *See* Cotter, *Overenforcement*, *supra* note 23, at 1281 n.22, 1293-94.

163. *See id.* at 1274-75.

164. *See id.* at 1281-83.

too quick to find positive externalities could do serious damage to the copyright incentive scheme (see caveat one), though equally serious harms to social welfare could result from courts not being quick enough to perceive those benefits. At the very least, however, the positive externalities rationale provides some basis for according, as the Copyright Act does,<sup>165</sup> uses for purposes such as education, news reporting, critique, and commentary substantial weight in the fair use calculus. Fifth, the rationale exposes the inherent limitations of the fair use doctrine. Because the individual user in this model appropriates only a portion of the social benefits of the use, the individual user never has an incentive to engage in the unauthorized use to the full extent that would generate positive externalities.<sup>166</sup> In the illustration above, for example, a rational user might forgo the use, even if the probability that a court would find the use to be fair is very high, if there is even a small probability of catastrophic judgment<sup>167</sup> and attorneys' fees; risk aversion would only exacerbate the disincentive effect. Put another way, an inherent appropriability problem limits the effectiveness of fair use as a generator of positive externalities.<sup>168</sup>

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165. See 17 U.S.C. § 107 (2006).

166. See Cotter, *Overenforcement*, *supra* note 23, at 1284-89.

167. The Copyright Act authorizes, among other things, awards of statutory damages ranging from \$750 to \$30,000 for each work infringed. See 17 U.S.C. § 504(c)(1) (2006).

168. The appropriability problem refers to the difficulty of inducing authors to invest in the creation and publication of creative works at the socially optimal level, given that they cannot hope to appropriate the value of all of the social surplus generated by their activity. See *id.* at 1288-89. I have argued that fair use suffers from a type of appropriability problem as well, because the doctrine cannot promise users the ability to appropriate the value of the positive externalities generated by their uses. See *id.* To be sure, I am not arguing that creators (or users) *should* be able to appropriate *all* of the social surplus caused by their activities; even if this were feasible, it would probably trigger more problems that it would solve. The point is simply that both the copyright incentive scheme and the fair use doctrine are imperfect tools for effectuating desired social outcomes.

The appropriability problem inherent to fair use doctrine is reflected in the litigation that gave rise to the proposed Google Book Search settlement. Had Google proceeded with its plan to scan every English-language book under copyright for the purpose of making snippets available online, it is reasonably likely that this use would have been adjudged a fair use. See *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596, 599, 602-08 (9th Cir. 2000) (holding that intermediate copying of object code from Sony PlayStation, for the purpose of reverse engineering interface specifications that would enable defendant to market competing platform, constituted fair use); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1514, 1517 (9th Cir. 1992) (holding that intermediate copying of object code from Genesis-compatible video games, for the purpose of reverse engineering interface specifications that would enable defendant to market its own Genesis-compatible games, constituted fair use); see also Samuelson, *supra* note 10, at 2586 n.341 (asserting that "Google had a stronger fair use case as to the scanning of these texts for purposes of indexing them and making snippets available in response to user queries than it had for the copies it made and delivered to the libraries"); Sprigman, *supra* note 17, at 336. The risk of an adverse decision, however, put enormous pressure on Google to settle despite the potential

## B. Cognizable Harm and Transformative Use

In this section I argue that the question of whether the use at issue threatens cognizable harm should be the most important aspect of the fair use analysis, and that transformative use should play only a subsidiary role. I also sketch out a tentative framework for developing a theory of cognizable harm and its relation to transformative use. This framework is necessarily preliminary, however, and a fuller development will have to take place in future work.

### 1. Cognizable Harm: General Considerations

At the outset, it is useful to distinguish the term “cognizable harm” from “harm” (or “loss” or “injury”) generally. For purposes of my analysis, an unauthorized use harms the copyright owner when it renders the copyright owner worse off than she would have been if she had the right and ability to authorize, or withhold authorization from, the use. Put another way, the copyright owner suffers harm (though not necessarily *cognizable* harm) if her utility is lower in a world in which the unauthorized use occurs than it would have been in a world in which (1) the law forbids the user from engaging in the use absent the copyright owner’s authorization, and (2) the user complies with the law.<sup>169</sup> More simply still, a use harms the copyright owner if she

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widespread positive externalities its use would have generated. See, e.g., Jonathan Band, *The Long and Winding Road to the Google Books Settlement*, 9 J. MARSHALL J. INTELL. PROP. L. 227, 259-60 (2010).

169. This definition differs from Bohannan’s definition of “copyright harm” as “the uncompensated violation of an exclusive right that would be likely to have a material effect on a reasonable copyright owner’s ex ante decision to create or distribute the work.” Bohannan, *Copyright Harm*, *supra* note 14, at 973. Bohannan’s definition of “copyright harm” is closer to my definition of “cognizable harm.” It is useful, however, to unpack the two concepts that I refer to as “harm” and “cognizable harm,” because doing so forces the observer first to articulate the nature of the copyright owner’s perceived interest (if any) in preventing the use, and *then* to determine whether society should gratify that interest. Thus, even though I fully agree with Bohannan (and with Wendy Gordon, see Gordon, *Harmless Use*, *supra* note 15, at 2427-28) that the copyright owner should not have the legal right to object to any and all uses to which she may object, it is nevertheless analytically useful to consider sequentially the questions of (1) whether the copyright owner *would* object, if given the legal right to do so; and (2) if so, whether conferring such a legal right would be desirable social policy.

Put another way, my analysis posits two states of the universe—one in which the use proceeds if and only if the owner and user reach agreement, and one in which it proceeds without the copyright owner’s agreement—and asks whether the owner is worse off in universe two as compared with universe one. If the answer is no, then there is no harm, cognizable or otherwise, and the use should proceed without requiring the copyright owner’s agreement. If the answer is yes, the question then is whether the harm is cognizable, i.e., whether the use is of a type that *should* be remediable. Cf. Wendy J. Gordon, *An Inquiry into the Merits of Copyright: The*

prefers that it not occur absent her permission, and transaction costs are not so high as to render negotiations with the user impractical. The copyright owner therefore suffers no harm in two circumstances: first, when she would not object to the uncompensated use; and second, when the owner and the would-be user would have negotiated a mutually acceptable license in the absence of transaction costs, but the expected transaction costs exceed the value of the use to the user.<sup>170</sup> This latter circumstance illustrates the standard rationale for permitting the unauthorized use to proceed as a fair use when transaction costs exceed the value of the use.<sup>171</sup> In such a case, the alternative to unauthorized use is no use, but no use renders the user worse off, and the copyright owner derives no revenue either way. This rationale for fair use is relatively uncontroversial,<sup>172</sup> but it has little relevance to the transformative use debate.

Sometimes, however, the unauthorized use threatens to render the copyright owner worse off than she would have been in an alternative world in which the law forbade the user from engaging in the use and the user complied with the law. In some instances, the harm facing the copyright owner may be predominantly (or exclusively) psychological; the owner may prefer, for example, that a projected use that threatens to compromise her perceived moral rights not proceed. This type of potential harm will be discussed later. The other, often more salient, source of harm is financial: the use threatens harm by potentially diverting demand (on the part of the user or of third parties) away from authorized copies of the original or from authorized derivative works based on the original. This possibility in turn raises two further questions: how serious must the risk of diversion be, and under what circumstances should such a diversion be characterized as cognizable harm? Here, as well, I will

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*Challenges of Consistency, Consent, and Encouragement Theory*, 41 STAN. L. REV. 1343, 1384-85 (1989) (noting that the characterization of the author's entitlement as freedom from harm or as sharing in the benefits produced by the copier's use is largely a matter of definition), cited in Bohannon, *Copyright Harm*, *supra* note 14, at 976-79. Observers who remain troubled by this definition of the copyright owner as suffering "harm" if she is worse off in universe two as compared with universe one (notwithstanding my intent that the term "harm" in this context should carry no normative weight whatsoever) are free to suggest a better one (potential harm? hypothetical harm?).

170. See Cotter, *Overenforcement*, *supra* note 23, at 1277-78. There also must be some uses that the copyright owner would not charge for even if transaction costs were zero. These uses also cause no harm. Probably, some purely personal uses fall into this category, though it is difficult to specify.

171. See *id.*

172. But see *id.* at 1278 (noting that the transaction costs rationale could discourage the creation of private institutions aimed at reducing transaction costs, as well as the risk of error costs).

put the first matter to the side for now, returning to it shortly, and focus on the second question of deciding what projected harm qualifies as cognizable harm.

Starting with what should be an easy case, suppose first that I want to give my spouse a copy of her favorite novelist's latest book as a birthday present. Instead of buying a readily available authorized copy at the local bookstore, however, I make an unauthorized copy of a library copy. Clearly, my conduct causes the author to suffer harm based on the definition above because my alternative course of conduct would have been to buy an authorized copy, from which sale the author presumably would have derived some revenue.<sup>173</sup> Second, consider a case in which I copy a few small portions of the novel for purposes of review or commentary. If the commentary is devastating, fewer people may purchase copies of the novel. In this case, the copyright owner has suffered harm because, once again, he is worse off than he would have been in a world in which my copying was illegal and I complied with the law. To be sure, the precise nature of the harm is different; unlike the unauthorized copy in the first scenario, my review does not substitute for authorized copies of the book, but rather encourages readers to substitute something else for authorized copies of the book. The author nevertheless has suffered harm as defined above, because in the alternative universe either (1) I would not have included passages from the original in my review, and the author's sales might not have suffered so much because the review would have been less effective, or (2) the author and I would have reached a deal permitting me to quote from his work in exchange for some fee. Circumstance (2) is improbable, though, because even if the aggregate benefit of my copying exceeds the private cost to the author, it is unlikely that I can capture enough of that benefit (a positive externality) to make it worth my while to attempt to reach a deal. The social benefit, in other words, resulting from my use may exceed the

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173. Of course, it's theoretically possible that the author would have written the novel, and the publisher would have published it, even if I (and others like me) were free to make literal copies. Maybe first-mover advantages or other methods of recouping the fixed costs of production would suffice to induce authorship and publication in most cases, even in the absence of copyright. See, e.g., MICHELE BOLDRIN & DAVID K. LEVINE, AGAINST INTELLECTUAL MONOPOLY 137-44 (2008) (arguing that first-mover advantages often are strong); Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281, 299-302 (1970) (arguing that first-mover advantages may be sufficient to induce production and dissemination of copyrighted works). It is doubtful that this is universally true, but even the theoretical possibility makes me hesitant to sign off on any definition of cognizable harm that necessarily would turn upon inquiry into whether the conduct threatens to undermine ex ante incentives to produce and publish. Another, more difficult, variation on the above hypothetical, which is returned to below, asks whether I cause cognizable harm when I copy a work that I would not otherwise buy. See *infra* note 210 and accompanying text.

private cost to the author, but that private cost in turn outweighs my private benefit.<sup>174</sup>

The question then arises of whether the harm suffered by the copyright owner in the two preceding examples should be legally cognizable. With respect to the first example, the answer is surely yes; indeed, it is hard to imagine a copyright system that would not forbid me from making and distributing a substitute copy of an entire work when authorized copies are readily available in the market. In the second example, however, the harm stemming from my use of portions of the original for purposes of critique or commentary obviously should not constitute cognizable harm. As Landes and Posner point out, authors generally (though not the author in my hypothetical, specifically) stand to benefit more from the advertising value of reviews they cannot control than from reviews they can.<sup>175</sup> More importantly, because critique and commentary often must quote from the work under review in order to be effective,<sup>176</sup> a rule that recognized the demand diversion flowing from a bad review as cognizable harm would impair the benefits of critique and commentary. Allowing authors to use copyright to stifle criticism in this manner would subvert the purpose of copyright law (and of free speech) to encourage free and open debate. Put another way, the law presumes in such cases that the social benefits exceed the social costs, thus providing a rationale for fair use, because any other result would undermine the very purpose of the copyright incentive.<sup>177</sup>

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174. See Cotter, *Overenforcement*, *supra* note 23, at 1281-83.

175. See LANDES & POSNER, *supra* note 70, at 117-18 (explaining that book reviews, as a form of advertising for books, are more credible and hence in the aggregate more valuable to publishers, if readers perceive them as not being subject to approval on the part of authors and publishers).

176. See Ruth Okedji, *Givers, Takers, and Other Kinds of Users: A Fair Use Doctrine for Cyberspace*, 53 FLA. L. REV. 107, 163 n.324 (2001) (citing *Robert Stigwood Group Ltd. v. O'Reilly*, 346 F. Supp. 376, 385 (D. Conn. 1972), *aff'd mem.*, 179 U.S.P.Q. 712 (2d Cir. 1973) ("it may be necessary for critical reviews to quote the original extensively in order to be effective")).

177. One implication of characterizing the harm flowing from critique or commentary as noncognizable is that doing so makes it unnecessary, in this context, to inquire into whether the use at issue deprives the copyright owner of revenue that otherwise might accrue from the licensing of an authorized critique or commentary. See Keller & Tushnet, *supra* note 11, at 995-99 (noting that, because some authors are indeed willing to license parodies in exchange for compensation, inquiry into whether the user has bypassed a licensing market for parodic uses risks undermining the fair use status of unauthorized parody). Put another way, considering whether the harm flowing from the use at issue is cognizable largely resolves the perceived circularity problem arising from the application of fair use factor number four (whether the use affects the market for or value of the copyrighted work). See, e.g., *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381, 1387 (6th Cir. 1996) (en banc) (rejecting the argument that "it is circular to assume that a copyright holder is entitled to permission fees and then to measure market loss by reference to the lost fees"); *id.* at 1408-09 (Ryan, J., dissenting) (arguing that it is indeed circular for publishers to argue "that they are entitled to permission fees, in part, because



## 2. Cognizable Harm: Is Transformativeness Relevant?

In the two examples thus far, the nature of the use at issue as transformative or not has played no role in determining whether the harm is cognizable (or its flipside, that the use is fair). Suppose, however, that my review copies so much of the original as to serve as a substitute for some consumers who otherwise would buy authorized copies, despite my negative review. In this case, some portion of the harm could be viewed as cognizable because it substitutes for the original, though the portion of the harm flowing from the diversion of demand to other authors' works would remain noncognizable. In the abstract, there is no clear answer to the question of how substantial the cognizable harm must be in relation to the noncognizable harm for the use to be actionable.<sup>178</sup> Presumably, though, in such a case, the transformativeness of the use could play a role, along with the more conventional "amount and substantiality of the portion used in relation to the copyrighted work as a whole,"<sup>179</sup> in evaluating which harm predominates. The more the use transforms the original in terms of its content or purpose, the less likely it will serve as an effective substitute. On this analysis, however, the question of whether the transformation would qualify the use as a derivative work, absent the fair use doctrine, appears to be irrelevant.

More controversially, but consistent with dicta from *Campbell*,<sup>180</sup> the preceding analysis would suggest that an unauthorized use that increases demand for authorized copies of the original (by whetting people's appetite for them, for example) also might cause cognizable harm, even if on net the copyright owner is better off than if the user had forgone the use.<sup>181</sup> This follows from the way I have defined harm above, because even if the use on net increases the copyright owner's revenue, the copyright owner might be better off still in a world in which the user had obtained permission;

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they are losing permission fees"); Bohannon, *Copyright Harm*, *supra* note 14, at 971 (arguing that the "expansive view of copyrights leads to circularity in determining when a use is fair"); Keller & Tushnet, *supra* note 11, at 997 (referring to "the ever-present risk of circularity in market harm analysis: Without an external limiting principle, all uses harm copyright owners' markets, in the sense that the copyright owner could always be paid for every use"). Under my proposed analysis, factor four would require inquiry into whether the use at issue affects a *cognizable* market for or value of the copyrighted work. In other words, even if there is "harm" as defined above, it would not be cognizable harm.

178. See LANDES & POSNER, *supra* note 70, at 117 (noting the possibility that some critiques will cause harm by substituting for the original).

179. 17 U.S.C. § 107 (2006).

180. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 n.21 (1994).

181. I say "might," however, because the harm flowing from the use could be noncognizable for other reasons (if, for example, the use is for purposes of a book review).

the copyright owner's net revenues would have been even higher in the amount of the permission fee. On this reasoning, the Court of Federal Claims' conclusion in *Gaylord* that the unauthorized use was fair because it increased public interest in the Korean War Veterans' Memorial sculpture<sup>182</sup> would be incorrect. On the other hand, it is not inevitable that copyright law *must* confer cognizable status on this type of harm. Perhaps if the Supreme Court were to revisit the issue, it might find persuasive an argument that this type of harm should not be remediable because, on balance, it is likely to increase social utility and unlikely to have an adverse effect on incentives. As in the above examples, however, it is useful to separate the question of whether the copyright owner is harmed (in relation to her welfare in a universe in which she is legally entitled to a remedy) from the question of whether the copyright system *should* confer a remedy for that harm.

### 3. Cognizable Harm: Further Refining the Analysis

Difficult issues also may sometimes arise in connection with uses that are not obvious critiques or commentaries on, or parodies of, the original. A range of possible uses may fall into this category, including the reproduction of visual works ancillary to news reporting or historical commentary,<sup>183</sup> satire,<sup>184</sup> and works that critique the culture that a work has come to symbolize.<sup>185</sup> As in the preceding

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182. See *Gaylord v. United States*, 85 Fed. Cl. 59, 70 (2008), *aff'd in part, rev'd in part*, 595 F.3d 1364 (Fed. Cir. 2010).

183. See, e.g., *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605 (2d Cir. 2006) (holding that reproduction in miniature of plaintiffs' vintage posters advertising Grateful Dead concerts, in a book about the Grateful Dead, constituted fair use); *L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924 (9th Cir. 2002) (holding that Court TV's use of a few seconds of plaintiff's videotape as to promote its trial coverage and in the opening montage of the show "Prime Time Justice" constituted fair use); *Núñez v. Caribbean Int'l News Corp.*, 235 F.3d 18, 23 (1st Cir. 2000) (holding that newspaper's reproduction of provocative photograph of holder of Miss Puerto Rico Universe title constituted transformative fair use of modeling photo into news).

184. See, e.g., *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1396 (9th Cir. 1997).

185. See, e.g., *Blanch v. Koons*, 467 F.3d 244, 253 (2d Cir. 2006) (holding that Jeff Koons painting constituted transformational fair use, as "commentary on the social and aesthetic consequences of mass media," of fashion photography); *SunTrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001) (holding that Alice Randall's retelling of *Gone With the Wind* from the standpoint of the slaves constituted fair use); see also William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659, 1768-69 (1988) (proposing that fair use doctrine should prefer transformative uses, defined as "uses of copyrighted material that either constitute or facilitate creative engagement with intellectual products," over "uses that neither constitute nor foster such engagement"; and proposing as examples of transformative use "the production of 'sequel' movies" as opposed to the "home videotaping of the sort at issue in *Sony*"); cf. *Rogers v. Koons*, 960 F.2d 301 (2d Cir. 1992) (holding that Koons' sculpture based on photograph was an

examples, making transformativeness the focal point of the analysis is a mistake; the fundamental question in all of these cases should be whether copyright law confers upon the owner the right to control the derivative market for such works, i.e., whether the harm arising from the unauthorized use is cognizable. There are several considerations that seem relevant to this question.

First, in at least some of these cases, the use at issue could be deemed a conventional derivative work insofar as it transforms protectable aspects of the original's contents. Second, however, unauthorized uses of the type at issue here often seem quite unlikely to pose any threat to the copyright incentive scheme; common sense would suggest that future Dr. Seusses, for example, are unlikely to stifle their muse simply because of the remote possibility that someone in the distant future will use their characters to lampoon a celebrity trial. Third, at least in the context of satires and cultural critiques, the unauthorized use may be (as in the case of more conventional critiques and commentaries) the most effective way to make one's point.<sup>186</sup> In other contexts, First Amendment law does not tolerate state action that inhibits state actors from expressing their views in the manner in which they see fit, absent a sufficiently important countervailing interest.<sup>187</sup> Fourth, in some instances, such

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unfair use); Cotter, *Memes*, *supra* note 65, at 392 n.263 (critiquing *Rogers v. Koons* on the ground that "[t]he incongruity of the medium of transformation ridicules the underlying work and the culture of which it is, supposedly, an exemplar"). In his essay on transformative use, Judge Leval noted Fisher's use of "the term 'transformative' in a somewhat different sense" from the sense used by Leval. Leval, *supra* note 5, at 1111 n.31. I agree with Fisher's general point that courts should give considerable deference to uses of a work for purposes of critiquing or engaging with one's culture; I also tend to agree that the home videotaping at issue in *Sony* was not transformative in Fisher's (or Leval's) sense of the term. At the same time, I approve of the result in *Sony* out of concern that characterizing the harm flowing from home videotaping as cognizable harm might have enabled the copyright industry to exercise undue control over the development of home videotaping technology. See *infra* notes 216-25 and accompanying text. More generally, the critiques of Samuelson, Tushnet, and others are persuasive that an undue emphasis on transformativeness risks undermining the fair use status accorded to some literal copying. See *supra* notes 18-22 and accompanying text.

186. Relatedly, for some readers the use may divert demand away from the original not because it directly substitutes for the original but because it calls the quality of the original into question. The use, in other words, may for some, though not all, consumers be perceived as a critique or commentary on the original.

187. See, e.g., *United States v. Eichman*, 496 U.S. 310, 315-16 (1990) (invalidating federal statute prohibiting flag burning); *Texas v. Johnson*, 491 U.S. 397, 411-12, 417-18 (1989) (invalidating similar state statute); *City of Renton v. Playtime Theatres, Inc.*, 475 U.S. 41, 47 (1986) (stating that "content-neutral" time, place, and manner regulations" satisfy intermediate scrutiny "so long as they are designed to serve a substantial governmental interest and do not unreasonably limit alternative avenues of communication"); *Cohen v. California*, 403 U.S. 15, 26 (1971) (holding unconstitutional the conviction of a defendant for wearing a jacket bearing the phrase "Fuck the Draft" in a Los Angeles courthouse).

uses may cause psychological harm to the author by compromising her artistic vision. Whether this sort of moral-rights harm should be cognizable at all is debatable (I tend to skepticism, as discussed below); even if so, its contours remain unclear (should it matter in the case of deceased authors such as Margaret Mitchell and Dr. Seuss, for example) and it is unlikely to be present in every such case (e.g., the Los Angeles News Service's video footage of the Reginald Denny beating<sup>188</sup>). Fifth, and related to all of the preceding points, in many cases, the author herself would be unlikely to enter the market niche served by the work that incorporates the unauthorized use.<sup>189</sup> When this is so, validating the author's right to control that market niche inhibits, rather than promotes, speech, unless the consequence of not according authors such control is to discourage future authors from creating and publishing. Even then, whether it would be consistent with copyright's speech-promoting purpose to accord such authorial control for the supposed greater good of encouraging more speech by other, future, authors is questionable.<sup>190</sup>

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188. See *L.A. News Serv.*, 305 F.3d at 924.

189. A parody (or other work), such as *The Wind Done Gone*, that critiques the original or the worldview reflected in the original, would be the most obvious example.

190. See Rubinfeld, *supra* note 136, at 21-24, 51-56. For other relevant discussions of factors that may be relevant to the derivative works/fair use divide, see Gordon, *Harmless Use*, *supra* note 15, at 2427-28, 2434 (defining "harm" as a negative departure from a baseline comprising "the welfare of the party in a world where the other person's action had not occurred"; contending that "setbacks to moralizing interests" should not count as a kind of harm, but that "severe insults to dignity" and "creative destruction" should; that not all harmful uses should be liable; and proposing, as a thought experiment, that harmless uses, defined as "uses that produce results that are Pareto superior to nonuse," should be free from liability except when "(1) . . . (a) the defendant makes a deliberate commercial use of the authored work in a context where the defendant is making licensing and other bureaucratic arrangements prior to production, and (b) the defendant makes enough profit to remain whole after paying the plaintiff"; or (2) the copyright owner seeks "a nominal monetary award for purposes of determining questions of title ownership and title"); Bohannon & Hovenkamp, *supra* note 14, at 67, 70 (stating that there should be no liability when the defendant's work does not substitute for the plaintiff's and "the plaintiff asserts harm based solely on the failure to pay a license fee . . . if (1) it is not credible that the copyright holder could have created a work similar to the defendant's or entered the defendant's market himself or herself; (2) the defendant was more likely to forgo the use than pay for the license (such as in non-commercial copying); or (3) the defendant's use increases sales of the copyright holder's work to an extent that more than offsets any lost licensing fees," but permitting remedies when "it is clear that an innovator would rely on [derivative work] royalties in deciding whether to create the work," such as for movie versions of novels). For a slightly older work in much the same vein, see Fisher, *supra* note 185. Consistent in many respects with my analysis here, Fisher argued both for a broad definition of "harm," see *id.* at 1740-41, and for a fair use doctrine that would excuse many such "harmful" uses based on a mix of factors, including among others the magnitude of the harm, the negative effect (if any) of the use on incentives, and the positive effect of the use on creativity and education. See *id.* at 1780-83.

How all of this should play out in any given case is often far from clear.<sup>191</sup> Apropos of the second consideration above, Balganesch and Bohannon have both recently argued that copyright generally should not forbid uses of a type that were not reasonably foreseeable at the time that the copyright owner created her work.<sup>192</sup> Bohannon has also argued more generally that copyright should not forbid uses that are unlikely to have a negative impact on others' incentives to create or publish.<sup>193</sup> On one view, these proposals seem sensible. If an unauthorized use is of a type that was unforeseeable at the time of creation, after all, it is hard to see how permitting it could have a negative impact on future authors' incentives to create and publish. Absent such a negative impact, the copyright owner's harm (as defined above) is not harm of the type that the copyright laws were intended to prevent. In practice, however, there are at least two potential problems that deserve further attention. The first is that foreseeability may be such a slippery concept that courts may be apt to find it even where reason would strongly suggest that it does not exist. As Sprigman notes, the Supreme Court in *Eldred v. Ashcroft*<sup>194</sup> accepted the argument that past authors may have been motivated to produce more works based on the expectation that they would enjoy whatever future extensions of copyright Congress chose to enact.<sup>195</sup> If foreseeability can be this malleable, it may not provide much of a limitation on the scope of copyright rights. Perhaps, though, foreseeability could be interpreted in a more reasonable manner when (unlike in *Eldred*) the question posed is something other than whether the Supreme Court should defer to Congress's judgment in defining the scope of congressional power to enact copyright laws. Courts routinely apply foreseeability and other probabilistic concepts in

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191. As a consequence, one might argue that, like the concept of transformativeness, the concept of cognizable harm is indeterminate and manipulable. Many legal standards arguably are indeterminate and manipulable, however; perhaps legal objectivity is something of a myth. See, e.g., Thomas F. Cotter, *Legal Pragmatism and the Law and Economics Movement*, 84 GEO. L.J. 2071, 2079-82 (1996). As suggested above, however, the cognizable harm framework at least directs decisionmakers' attention explicitly to factors that seem relevant to rational fair use policy, in a way that transformativeness does not.

192. See Balganesch, *supra* note 13, at 1603-09 (arguing that such uses should not be prima facie actionable); Bohannon, *Copyright Harm*, *supra* note 14, at 1970 (arguing that such uses should be privileged under the fair use doctrine).

193. See Bohannon, *Copyright Harm*, *supra* note 14, at 1970, 1974, 1987.

194. 537 U.S. 186, 192 (2003).

195. See Sprigman, *supra* note 17, at 323-24; see also Gordon, *Response*, *supra* note 15, at 73-77 (arguing that tying copyright liability to foreseeability may pose administrative problems, and also that it focuses on the wrong time frame, i.e., when the author creates as opposed to when he or she decides to invest in learning his or her craft).

general tort and contract law, after all, as well as in other branches of intellectual property law.<sup>196</sup>

A second problem that arises from proposals to limit the right to recover to cases in which copying is likely to have an effect on copyright owners' ex ante incentives is that, arguably, such proposals would gut at least some of what the Copyright Act appears to promise copyright owners. Consider: the last  $x$  number of years of copyright protection almost certainly have little, if any, incentive effect with respect to any given copyrighted work, given the overwhelming probability that any given work will be obsolete so far into the future.<sup>197</sup> Would this mean that fair use effectively shortens the copyright term—and, if so, by how much?<sup>198</sup> Or consider derivative works. As suggested in the preceding section, the incentive effect of the derivative works right may well be minimal with respect to a large number of copyrighted works.<sup>199</sup> Would the statutory right to prepare derivative works transform into a right to prepare only derivative works of a type that were foreseeable at the time of the underlying work's creation?<sup>200</sup> Although such a change may be desirable as a matter of policy, is such a limitation on the right consistent with the

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196. See Balganes, *supra* note 13, at 1594-1600, 1609-10; see also *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 416-17, 421 (2007) (holding that, where a combination of prior art elements, or a substitution of one element for another found in the prior art, demonstrates unexpected properties or yields previously unpredictable results, the combination is more likely to have been nonobvious at the time of invention to a person having ordinary skill in the art); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 737-41 (2002) (holding that a patentee who narrows its pending patent application for a reason substantially related to patentability is not estopped from asserting that an accused invention infringes under the doctrine of equivalents, where it would not have been reasonably foreseeable to a person having ordinary skill in the art at the time of the amendment that the patentee was surrendering the equivalent at issue); *Shakespeare Co. v. Silstar Corp. of Am.*, 110 F.3d 234, 242 (4th Cir. 1997) (discussing relevance of probability that trademark owner will "bridge the gap" from one product market to another); Thomas F. Cotter, *Owning What Doesn't Exist, Where It Doesn't Exist: Rethinking Two Doctrines from the Common Law of Trademarks*, 1995 U. ILL. L. REV. 487, 493-94, 507-08 (1995) (discussing the circumstances under which a trademark owner is entitled to exclude others from future geographic markets the trademark owner is likely to penetrate).

197. See Brief of George A. Akerlof et al. as Amici Curiae in Support of Petitioners at 5-10, *Eldred v. Ashcroft*, 537 U.S. 186 (2003) (No. 01-618), available at 2002 WL 1041846.

198. Some scholars have made the related argument that the scope of fair use should expand as a work ages, due in part to the attenuating effect on incentives. See Justin Hughes, *Fair Use Across Time*, 50 UCLA L. REV. 775, 800 (2003); Joseph P. Liu, *Copyright and Time: A Proposal*, 101 MICH. L. REV. 409, 433-46 (2002); cf. Balganes, *supra* note 13, at 1626 (arguing that "the existence of [an] abnormally long period of protection" should not be "taken as evidence of an intent to protect unforeseeable uses," but rather is precisely what "justifies nontemporal limits on copyright").

199. See *supra* notes 153-62 and accompanying text.

200. See Bohannon, *Copyright Harm*, *supra* note 14, at 1006.

statutory text?<sup>201</sup> Alternatively, if the right to prepare derivative works is sufficiently problematic from the standpoint of freedom of speech, perhaps a more direct approach would be to limit the right on First Amendment grounds<sup>202</sup> rather than indirectly through the fair use doctrine.

I raise these points not to dismiss proposals like those of Balganesch and Bohannon out of hand, but merely to note that these proposals may be in tension with at least some other aspects of copyright law. Where the optimal balance of the relevant policy considerations lies is not so obvious. Notably, however, the transformative nature of the use often seems to have little, if any, *direct* bearing on any of those considerations—which is not to say that it is completely irrelevant. The more radical the transformation is, perhaps, the less likely it was foreseeable at the time of creation or would have an impact on future incentives.<sup>203</sup> Similarly, the more transformative the use may be in terms of content or purpose, the less likely it is that it will usurp a derivative market that the author intended to exploit herself. Additionally, the more a work transforms the original in terms of content or purpose, the more likely it may be something in the nature of commentary or critique (or cultural critique) than a substitute for the original. All of this goes to show, however, that transformativeness should be a subsidiary, not a dominant, consideration in the analysis. The more transformativeness dominates that analysis, the more likely the relevant policy issues will be obscured.

#### 4. Cognizable Harm: Some Further Illustrative Examples

This Article closes by considering three additional lines of cases that demonstrate the importance of cognizable harm and the (relative) unimportance of transformativeness to a policy-based fair use analysis. First, suppose that I decide to make not just one but one

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201. Maybe it is, if as Bohannon and Hovenkamp argue the statutory text must be read in light of the constitutional purpose of promoting the progress of science. See Bohannon & Hovenkamp, *supra* note 14, at 65. To be sure, in *Eldred v. Ashcroft*, the Supreme Court did not accord that constitutional statement of purpose much independent weight in evaluating the constitutionality of the Copyright Term Extension Act. See *Eldred v. Ashcroft*, 537 U.S. 186, 212 (2003) (stating that “it is generally for Congress, not the courts, to decide how best to pursue the Copyright Clause’s objectives,” and concluding that the act satisfied rational basis review). But perhaps the context—evaluating the constitutionality of a clear rule extending the copyright term—is sufficiently different from the context in which courts would be considering imposing a judicial gloss on the statutory definition of “derivative work.”

202. See Rubinfeld, *supra* note 136, at 53-59.

203. See Bohannon, *Copyright Harm*, *supra* note 14, at 1006.

hundred copies of a bestseller and to give them away to friends. In a world in which the law forbids the unauthorized use and I comply with the law, I either (1) would have purchased authorized copies or (2) forgone the use if I valued the use at less than the market price for authorized copies. In circumstance (1), the unauthorized copying and distribution deprived the copyright owner of sales revenue, and he clearly has suffered harm, as in one of my preceding hypotheticals.<sup>204</sup> In circumstance (2), however, there is a sense in which, as in the transaction cost example, the unauthorized use caused *no* harm because it did not deprive the author of sales revenue that he otherwise would have earned.<sup>205</sup>

This scenario is analogous to cases such as *Princeton University Press*, in which the professors who created coursepacks incorporating excerpts from copyrighted books asserted that they would not have required their students to buy copies of the books in their entirety.<sup>206</sup> Although it is tempting to characterize this sort of use as involving no harm at all, let alone cognizable harm,<sup>207</sup> there are several reasons to be skeptical. First, to exempt the user from liability in this instance would encourage scofflaws to flout the system (i.e., “Sue me and prove that, but for the infringement, my recipients or I would have bought lawful copies”). Put another way, the copyright system (at least as a first approximation) channels parties into voluntary transactions when it is in their interest to transact. When the results of voluntary transactions would result in no deal because the user values the use at less than the owner is willing to accept, this is not necessarily indicative of a market failure. Second, it seems possible even here that the unauthorized use will cause some real

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204. See *supra* text accompanying note 174.

205. Assuming, that is, that the recipients of my largesse would not have purchased their own copies. To the extent some of them would have done so, my conduct caused the copyright owner to suffer harm up to the number of such forgone purchases (but arguably no further).

206. Compare *Princeton Univ. Press v. Mich. Doc. Servs.*, 99 F.3d 1381, 1388 (6th Cir. 1996) (en banc) (stating that “[t]he defendants make much of the proposition that these professors only assigned excerpts when they would not have required their students to purchase the entire work,” but that “none of these affidavits shows that the professor executing the affidavit would have refrained from assigning the copyrighted work if the position taken by the copyright holder had been sustained beforehand”), *with id.* at 1398 (Ryan, J., dissenting) (stating that “[e]ach of the requesting professors signed a declaration stating that he does not request copies of excerpts where he would otherwise have assigned the entire work to his students.”), *id.* at 1405-06 (stating that “evidence of record is the professors’ declarations that they do not excerpt material when they would otherwise assign the entire work,” and that “[e]ach of the professors who delivered the materials to MDS signed a statement that he would not otherwise have assigned the copyrighted work to the class”), *and id.* at 1409 (stating that “[b]ecause the professors would not have assigned the original works in any case, the students who purchased coursepacks were not a demonstrable market diverted from purchasing the works”).

207. See Bohannon & Hovenkamp, *supra* note 14, at 58 & n.260.



harm to the author to the extent that the availability of unauthorized copies might discourage third parties who would have paid for authorized copies of the work from doing so.<sup>208</sup> Sorting out the real harm due to third party substitution from the illusory harm may not be worth the effort. Third, exempting such uses from liability might undermine efforts to create private solutions (such as copyright clearance centers) that might better balance the incentive/access tradeoff than would a rule of no liability.<sup>209</sup> The correct resolution of the problem is nevertheless far from obvious, and I recognize that my preference for the solution reached in *Princeton University Press* (rejecting the fair use privilege)<sup>210</sup> may overestimate the social benefits of retaining the copyright incentive in cases of that type. Arguably, the court's solution renders unlawful conduct that causes, at most, some sort of constructive (but not actual) harm.

A second line of cases that demonstrate the importance of developing a theory of cognizable harm are those in which according copyright owners the right to control the use at issue might enable owners to exert control over some noninfringing product or technology used in conjunction with the copyrighted work. For example, suppose that the use at issue is the unauthorized copying of computer code for the purpose of reverse engineering the code to extract applications program interfaces (APIs) that enable the user to create competing, but noninfringing, end products.<sup>211</sup> If the harm caused by the intermediate copying were cognizable, the owner of copyright in the code in effect would be using its copyright to insulate itself from competition from noninfringing products. Avoiding this result is probably good copyright policy, but characterizing the use as transformative in purpose seems more of an afterthought than a rationale.<sup>212</sup> In a somewhat similar vein, cases in which copyright owners complain that copying technology induces or contributes to

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208. See Gordon, *Harmless Use*, *supra* note 15, at 2427. This latter harm is also possible, but perhaps less likely, in the typical case in which fair use is justified by the presence of high transaction costs.

209. See Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CAL. L. REV. 1293, 1296 (1996) (arguing that voluntary institutions, such as patent pools and collective rights organizations such as ASCAP and BMI, are preferable to compulsory licensing systems as a means of overcoming bargaining obstacles). Fair use can be thought of as a type of compulsory licensing scheme (albeit one that permits use at a price of zero). See Cotter, *Overenforcement*, *supra* note 23, at 1279.

210. *Princeton Univ. Press*, 99 F.3d at 1383.

211. See *Sony Computer Entm't, Inc. v. Connectix Corp.*, 203 F.3d 596, 598 (9th Cir. 2000); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1514 (9th Cir. 1993).

212. Perhaps this is an overstatement. Transformativeness is probably still relevant, after all—just not dispositive.

third party acts of infringement can be viewed to some extent as disputes over who gets to control the evolution of such technology. Although this is neither the time nor place to defend or critique cases such as *Sony*,<sup>213</sup> *Napster*,<sup>214</sup> or *Grokster*,<sup>215</sup> an important consideration in addressing the issues that these cases raise is how to develop a test that preserves copyright incentives, to the extent necessary, without unduly hampering the development of new technology.<sup>216</sup> Resolving these issues should determine which harms are cognizable and under what circumstances; the transformativeness, or not, of the use itself is at best a subsidiary matter. Finally, the Ninth Circuit's resolution of the thumbnail image issues in *Kelly v. Arriba Soft*<sup>217</sup> and *Perfect 10 v. Amazon.com*<sup>218</sup> can be defended on a variation of this line of reasoning. Permitting copyright owners to control the generation of thumbnail images in response to search queries would, in effect, confer upon them a degree of control over search query technology. Like the intermediate copying at issue in *Sega v. Accolade*<sup>219</sup> and *Sony v. Connectix*,<sup>220</sup> this copying probably should be deemed outside the scope of the copyright owner's rights, and the court in *Perfect 10* was probably right to permit the copying to proceed absent evidence that it interfered with a real-world market for cell phone downloads.<sup>221</sup> Yet again, however, the characterization of the use as transformative seems somewhat beside the point. The real issue is whether the copyright owner should be allowed to control some ancillary niche market; by itself, transformativeness adds little to the resolution of this question.

A third type of case in which a theory of cognizable harm would be helpful is one involving the unauthorized use of an earlier work to generate a sequel. Fan fiction provides one example of such use, but for present purposes I would like to focus on another prominent recent case, *Salinger v. Colting*.<sup>222</sup> In *Salinger*, the author of *Catcher in the Rye* filed suit against Fredrik Colting, the author of an unauthorized

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

214. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001).

215. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

216. For analysis along these lines, see MICHAEL A. CARRIER, INNOVATION FOR THE 21ST CENTURY: HARNESSING THE POWER OF INTELLECTUAL PROPERTY AND ANTITRUST LAW 105-06, 133-45 (2009).

217. 336 F.3d 811, 822 (9th Cir. 2003).

218. 508 F.3d 1146, 1177 (9th Cir. 2007).

219. 977 F.2d 1510, 1517 (9th Cir. 1993).

220. 203 F.3d 596, 602 (9th Cir. 2000).

221. Had that market existed, *Perfect 10*, like the *Sony/Napster/Grokster* line of cases and like dual use cases generally, would have presented a more difficult set of problems.

222. 641 F. Supp. 2d 250 (S.D.N.Y. 2009).

sequel (titled *60 Years Later*) that depicted Holden Caulfield in the modern day as an elderly nursing home resident.<sup>223</sup> The district court granted Salinger's motion for a preliminary injunction, reasoning that the defendant's work was an unauthorized derivative work and not a fair use.<sup>224</sup> On one reading, the court's decision seems unexceptional. Sequels generally are derivative works, and unlike, say, Alice Randall's creative retelling of *Gone with the Wind*, *60 Years Later* is critical of neither the original work nor the culture or worldview reflected therein.<sup>225</sup> On this view, its transformation of the original is not a fair use. In reaching this conclusion, however, the court minimized the importance of the fact that Salinger was very unlikely ever to authorize *any* sequel to *Catcher in the Rye*.<sup>226</sup> Simply put, there is no functioning market that Colting is usurping. Allowing Salinger to enjoin the publication of the sequel therefore cannot be justified by any of the policies underlying the exclusive right to prepare derivative works other than the moral rights or congestion externalities justifications.<sup>227</sup> Standing alone, however, these justifications are hard to reconcile with the view of copyright as an engine for encouraging creativity and publication.<sup>228</sup> As in so many of

223. See *id.* at 253, 260 n.3.

224. See *id.* at 268-69.

225. See *id.* at 257-60, 258 n.2, 260 n.3.

226. See *id.* at 268. While this article was in the editing process, Salinger died. See Charles McGrath, *J.D. Salinger, Literary Recluse, Dies at 91*, N.Y. TIMES, Jan. 29, 2010, at A1; see also *Salinger v. Random House, Inc.*, 811 F.2d 90, 99 (2d Cir. 1987) (an earlier case involving Salinger, similarly concluding that the effect on the market for Salinger's correspondence was "not lessened by the fact that their author has disavowed any intention to publish them during his life-time"). My guess is that his estate would not authorize a sequel, either.

227. See *supra* notes 153-62 and accompanying text.

228. To be sure, the district court suggested that authors may be motivated to create in reliance on their ability to prevent others from making unauthorized sequels. See *Salinger*, 641 F. Supp. 2d at 268. The likelihood that the possible exercise of this right many years after creation of the original work would provide a material motivation for authorial creativity nevertheless seems remote; for present purposes, however, the relevant question is whether the author's interest in preventing any sequel from being published during the term of copyright merits legal protection. (Of course, it is always possible—though apparently unlikely on the facts of *Salinger*—that an author may change his or her mind on the subject.) In addition, courts are supposed to consider not just the defendant's conduct in isolation but the impact on the copyright owner if the defendant's conduct became widespread. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994). A multiplicity of *Catcher in the Rye* sequels potentially would cut into the economic value, such as it is, of Salinger's exclusive right to prepare such works. As suggested below, however, the law might be able to prevent such an outcome by according authors a period of time within which to publish an authorized sequel. See *infra* note 232.

For what it's worth, it may be that, on balance, the world is a better place without a *Catcher in the Rye* sequel potentially obscuring the poignancy of the original. But it is difficult to see how this consideration can be accorded any weight in a system that is supposed to promote, rather than censor, creative expression. The world may well be a better place without lots of other

the preceding examples, transformativeness should be relevant only to the extent it suggests the sequel will not compete with the original. The heavy lifting comes in determining whether the copyright owner's entitlement extends to precluding anyone, himself included, from occupying the market niche the defendant is trying to serve.

Generalizing from the preceding analysis of *Salinger*, there are likely to be other cases in which a use will divert demand away from authorized copies of the original or from authorized derivative works only in theory; in reality, the copyright owner has no expectation or interest in providing those authorized copies or authorized derivatives herself, either directly or through licensing someone else. In such cases, the copyright owner normally would be able to control the derivative market but prefers to leave that market empty. A good case can be made that, under these circumstances, the copyright owner's interest in controlling these phantom markets should not be cognizable, and another party's willingness to serve that market should be allowed; any other result means that copyright is being used as a tool for censorship.

This analysis nevertheless should be tempered by several prudential considerations. First, the copyright owner probably should have some time to enter the derivative market, unless the First Amendment trumps the right to prepare derivative works in general or the congestion externalities rationale in particular. For example, the Disney Corporation could keep its films in the so-called "Disney vault" for a period of time to increase the ultimate demand for those films, on the expectation that Disney eventually will satisfy that demand; it is a question of when, not if.<sup>229</sup> And Disney surely has a price; it is not protecting a phantom market.<sup>230</sup> Similarly, an author

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kitsch, but that's not a good reason to forbid it; and for all I know, *60 Years Later* may actually be pretty good.

229. See, e.g., Thomas K. Arnold, *'Bambi' Is Back—for 70 "II" Days*, USA TODAY, Feb. 7, 2006, at 3D, available at [http://www.usatoday.com/life/movies/news/2006-02-06-bambi\\_x.htm](http://www.usatoday.com/life/movies/news/2006-02-06-bambi_x.htm) (discussing "Disney's successful moratorium strategy" of keeping films out of circulation for a time).

230. The same arguably would be true in the case holding the *Seinfeld* quiz book to be an unfair use. *Castle Rock Entm't, Inc. v. Carol Publ'g Group, Inc.*, 150 F.3d 132, 135 (2d Cir. 1998). Although Castle Rock, the owner of copyright in the *Seinfeld* series, had "evidenced little if any interest in exploiting this market for derivative works based on *Seinfeld*, such as by creating and publishing *Seinfeld* trivia books," *id.* at 145, there is no reason to think that Castle Rock would not authorize trivia books if the price were right; and the books are not so closely analogous to critiques or guides or search engines. To the extent that the case is still troubling, it may be that the characterization of "creative" facts as fiction (rather than as, for some purposes at least, facts) is wrong. *But see* Justin Hughes, *Created Facts and the Flawed Ontology of Copyright Law*, 83 NOTRE DAME L. REV. 43, 85-87 (2007) (questioning whether these types of created facts should be viewed as facts, rather than fiction).

who is picky about who may make the film version of, or translate, her work, would have time to reach a decision with which she can be comfortable. But someone whose only motivation is to prevent a sequel or other derivative work from being written for as long as possible shouldn't be allowed to wield her copyrights to accomplish this end.<sup>231</sup> The market for Salinger sequels is as much a phantom market as was the market for cell phone downloads at the time of *Perfect 10*—most likely, more so.<sup>232</sup>

### III. CONCLUSION

I have argued that the concept of transformative use must itself be transformed from leading role to supporting actor in the fair use cast of characters. The concept that courts need to begin addressing in earnest is that of cognizable harm. Recent work by copyright scholars to develop a theory of cognizable harm is among the most important in this field today. Much more work in this vein remains to be done, however, to delineate the relevant factors in evaluating whether remedying a purported harm would be consistent with copyright policy. In particular, scholars need to develop methods for evaluating which uses are unlikely to impact incentives; for integrating free speech and possibly moral rights interests into the analysis; and for somehow reconciling the resulting mix with the

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231. Analogously, copyright owners sometimes may try to keep copies of the original out of circulation for censorship-related reasons. For example, I have argued that, in *Worldwide Church of God v. Philadelphia Church of God, Inc.*, 227 F.3d 1110 (9th Cir. 2000), the owner's only plausible reason for denying permission to the defendant to copy the scriptural work at issue was to inhibit religious dissent, and that courts should not be complicit in this use of copyright to inhibit the user's religious practice. See Thomas F. Cotter, *Gutenberg's Legacy: Copyright, Censorship, and Religious Pluralism*, 91 CAL. L. REV. 323, 380-86 (2003). On the other hand, if J.D. Salinger and his publisher decided tomorrow to stop selling copies of *Catcher in the Rye*, it's doubtful that fair use would entitle others to make unauthorized copies. Because there are plenty of existing copies still in circulation, the effect of such a decision on the part of Salinger and his publisher would be limited in its impact. By contrast, there are probably many fewer copies of the work at issue in *Worldwide Church of God* (though some surely exist in libraries, among other places).

232. To the extent that there may be cases in which it is difficult to discern whether an author has *no* interest in ever authorizing a sequel, or only an interest in waiting for the "right" sequel to come along, perhaps a court could enjoin an unauthorized sequel subject to the condition that the injunction would lift if no authorized sequel is forthcoming within *x* years. To be sure, this solution might give rise to strategic behavior. An author might authorize a sequel he prefers so as to preempt one he does not; or he might authorize a mediocre sequel to preempt another that he deems to be inferior, without waiting for one that is better out of fear that the market will be saturated by the time the better sequel is ready. Alternatively, authors who place a high value on their artistic integrity and legacy might wind up not getting compensated at all. But no solution is perfect, and life isn't always fair.

statutory text. These are not going to be easy tasks, but they should form the heart of any serious effort to reform the fair use doctrine.

Unduly focusing on transformative use, by contrast, is often a sideshow, unnecessarily distracting judges from the more important question of whether enabling copyright owners to control certain niche markets is consistent with copyright policy and free speech principles. Though sometimes relevant, transformativeness should play only a subsidiary role in the fair use calculus. The time has come for a more insightful fair use policy.

