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Cut in Tiny Pieces: Ensuring That Fragmented Ownership Does Not Chill Creativity

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ABSTRACT

The market for video entertainment is growing and becoming more diverse as technology reduces barriers to entry for small, independent moviemakers and distributors and increases consumers' ability to access the media of their choice. The growing complexity of the market, however, increases transaction costs for new entrants who must obtain licenses to copyrighted music, characters, storylines, or scenes that they incorporate into their movies. The entertainment bonanza offered by new technologies may not be realized in practice because of market failure. The purposes of the Copyright and Patents Clause are frustrated because creators of new works wishing to use new technologies to build on prior creative effort confront a legal regime intertwined with older technologies and industry structures.

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This Article argues that the market needs new public and private law mechanisms to make it function more efficiently, by making it easier for creators of new works to (1) find the owners of preexisting content and (2) overcome other barriers to obtaining licenses, such as strategic behavior, irrational protection of entrenched bureaucracies, and obsolete, embedded capital. This Article begins with a hypothetical story of an independent moviemaker. It explains the problems that he confronts in making his movie, explores the relationship between the structure of the market for entertainment works and the circumstances that have traditionally justified legal intervention in a market economy, analyzes various models for such intervention, and proposes legislative, common law, and equitable solutions to mitigate the problems. The proposals afford a privilege for a new creator to use preexisting works when he cannot identify the holders of rights in the preexisting work, when he is unsuccessful in communicating with those rights holders, or when he proposes a reasonable royalty and is rebuffed.

The purpose of copyright law is to encourage and reward creative effort. Current conditions frustrate achievement of that goal by making it easy for copyright owners to hide and then ambush creators of new works that build upon existing works. Amendment of the Copyright Act or application of the interpretive principles proposed in this article would further the law's purpose.

TABLE OF CONTENTS

I.	BLAKE'S PROBLEM.....	4
II.	THE VIDEO ENTERTAINMENT INDUSTRY IS BESET WITH HIGH TRANSACTION COSTS FOR COPYRIGHT LICENSING	9
	A. <i>Copyright Blocks Unlicensed Use of Much Material Used as a Foundation for New Works</i>	10
	1. Basics	11
	2. Derivative Works	12
	3. Copyrighted Characters and Plots.....	13
	B. <i>Search Costs Are Well Known, Especially for "Orphan Works"</i>	18
	C. <i>Extensive Fragmentation of Copyright Aligns Poorly with the Realities of New Technologies</i>	20
	D. <i>Existing Clearance Services Are Insufficient</i>	24
	E. <i>The Result Is Market Failure</i>	25
III.	THE PROBLEMS CONFRONTING VIDEO ENTERTAINMENT ARE WELL KNOWN IN PROPERTY MARKETS GENERALLY	26

	<i>A. Coase on Market Failure, Externalities, and Transaction Costs</i>	26
	<i>B. Holdout and Free-riding Problems</i>	28
	<i>C. Collective Action Costs</i>	29
IV.	MODELS FOR SOLVING BLAKE'S PROBLEM	31
	<i>A. Using Without Paying</i>	31
	1. Narrowing the Protection of Certain Elements.....	32
	2. Privileges Under Special Circumstances.....	32
	3. Adapt the Fair Use Privilege	33
	<i>a. Purpose and Character of Blake's Use:</i>	
	<i>Transformative</i>	35
	<i>b. Nature of the Copyrighted Work: Part of the Culture</i>	37
	<i>c. Amount of Copyrighted Work Taken</i>	39
	<i>d. Market-impact Element Provides Useful Flexibility</i>	40
	4. Copyright Misuse	42
	5. Nuisance.....	43
	<i>B. Finding Someone to Receive Payment</i>	44
	1. Traditional Recording Systems.....	44
	2. Copyright Recording System	45
	3. Quiet Title Actions	46
	<i>C. Determining a Fair Payment</i>	48
	1. Eminent Domain	49
	<i>a. Public Use Requirement</i>	49
	<i>b. Private Condemnation</i>	50
	<i>c. Application to Entertainment and Intellectual Property</i>	51
	2. Other Mechanisms for Reducing Holdout Costs:	
	Statutory Compulsory License Mechanisms	52
	3. Flexibility Under Existing Law	57
	<i>a. Conditioning Injunctive Relief on Equity</i>	57
	<i>b. Damages Discretion</i>	58
	<i>D. Institutionalizing Collective Action</i>	60
	1. Copyright Collectives	61
	2. Limitations of Collective Action Models	64
V.	CRAFTING A SOLUTION FOR COPYRIGHT FRAGMENTATION IN ENTERTAINMENT WORKS: CONCEPTUAL PRINCIPLES.....	67
VI.	A PROPOSAL.....	71
	<i>A. Statutory Amendments</i>	72
	1. Orphan Report Recommendation.....	72

2. More Comprehensive Amendment to the Copyright Act	74
B. <i>Interpretative Common Law Approaches</i>	76
1. Fair Use Principles	76
2. Equitable Principles for Injunctions.....	77
3. Discretionary Principles for Damages	78
VII. CONCLUSION.....	78

The market for video entertainment is growing and becoming more diverse as technology reduces barriers to entry for small, independent moviemakers and distributors and increases consumers' ability to access the media of their choice.¹ The growing complexity of the market, however, increases the likelihood that new entrants must obtain licenses to copyrighted music, characters, storylines, or scenes that they incorporate into their movies. It additionally increases the already-daunting transaction costs for licensing of these rights. As a result, there is a risk that the entertainment bonanza offered by new technologies will not be realized in practice because of market failure.

This Article argues that the market needs new public and private law mechanisms to make it function more efficiently, by making it easier for creators of new works to (1) find the owners of preexisting content and (2) overcome other barriers to obtaining licenses, such as strategic behavior, irrational protection of entrenched bureaucracies, and obsolete, embedded capital. This Article begins with a hypothetical story of an independent moviemaker, explains the problems that he confronts in making his movie, explores the relationship between the structure of the market for entertainment works and the circumstances that have traditionally justified legal intervention in a market economy, analyzes various models for such intervention, and proposes legislative, common law, and equitable solutions to mitigate the problems.

I. BLAKE'S PROBLEM²

Blake Cannon is an independent moviemaker. He has just finished shooting a movie from a screenplay written by one of his classmates, Ian Mason, who, like Blake, recently graduated from Chicago's Columbia College with a degree in filmmaking. The

1. See Henry H. Perritt, Jr., *Technologies of Storytelling: New Models for Movies*, 10 VA. SPORTS & ENT. L.J. 106 (2010).

2. The story set forth in this section is entirely fictional. It represents a hypothetical intended to frame the issues explored in the article.

screenplay adapts some of the characters and part of the story line from a popular play, *Hit and Hide*, which the playwright adapted from a novel entitled *Driton*. The screenplay incorporates all or part of six popular songs, sung or played by characters in various scenes. One is “Happy Birthday.” Another is “American Idiot,” by Green Day. Others are less well known, initially distributed on MySpace and YouTube.

Blake put together a shoestring budget, recruited other classmates for the cast, completed principal photography, and finished a marathon editing session. The result was a respectable initial cut of the movie. Needing a break and feeling euphoric about the results, he threw on some jeans and a tee shirt, and headed for his favorite bar. He was delighted to see one of his best friends from high school there, a young lawyer named Sean Sterling. Blake told him about the movie project and his enthusiasm about the movie’s likely reception on the indie-movie-festival circuit.

“That’s great, bro!” Sean said. “When can I see it?”

Blake only briefly hesitated over the possibility that the initial edit was too raw to be exhibited. After all, it was a damn good cut. “You bet,” he said. “Where should we watch it?”

“Can you come to our condo tomorrow evening? How about eight o’clock? We should be home by then.”

“I’ll be there,” Blake said, and ordered him another round.

Blake nervously arrived at Sean’s upscale condo the next evening. Sean opened the door immediately. He already had the DVD tray open on the player attached to his big flat-screen TV. Blake pulled the DVD out of his pocket, put it in the tray, and waited to push the “play” button until Sean’s boyfriend, Chase Krebs, sat on the couch to join them.

Once Chase had arrived, Blake took a breath and pressed the button. Sean scooted over a bit and patted on the couch for Blake to sit down as well. No one said anything for the 75-minute run time. Blake glanced over from time to time to gauge their reactions. After the credits rolled at the end, he got up, pushed the stop button, and continued standing, facing the other two.

“That’s awesome, dude!” Sean said after a moment. “Simply awesome!” He was full of questions about the story’s development, the cast, and various details of the shooting. Drawn in, Blake took no notice for a good ten minutes of the fact that Chase, usually the more effervescent of the two, was not saying much.

“You didn’t like it as much as Sean apparently did,” Blake said to Chase, finally.

“Oh, I think it’s terrific too. You should be proud of it. We’re honored to have such an artist in our humble abode.”

“But?” said Blake.

“Well, I was just wondering: Have you obtained rights to everything you used in the movie?” Blake remembered that Chase recently did some copyright clearance work for a musician friend.

“It’s an original work,” Blake said, more defensively than he intended.

“I thought Sean said you used a play as your starting point.”

“I can only use the play for inspiration.”

“But you used characters from the play and from the novel on which the play was based, didn’t you?”

“Yes,” said Blake, starting to become annoyed. “Surely characters cannot be copyrighted.”

“Well . . .” said Chase. “And not all of the songs are original, are they?”

“No, of course not,” said Blake. “We needed short sections of a couple of well-known songs to set the mood for certain scenes. As you saw, most of them played on the radio or off of a character’s iPod.”

“Didn’t you say that you pulled one off of MySpace?” Chase persisted. “That one is not so well known.”

Sean stood up to fetch some more beer, “Chase may have a point,” he said.

Just terrific, thought Blake, completely deflated. “Maybe I need to do some more editing,” he reluctantly said.

“No, no!” said Chase. “Don’t change a thing—except for smoothing it out a bit, or whatever else you had planned to do. Sean and I will help you get the copyright clearances you need. If this movie makes it big, you don’t want to get tangled up in a bunch of lawsuits that would not only take all the movie revenue, but bankrupt you personally.”

“No, that’s for sure,” said Blake, trying to decide if he felt better or not.

Chase pulled a yellow pad toward him on the coffee table with his bare foot, and looked at it. “I counted twenty-five separate copyright clearances you need to get,” he said. Blake hadn’t even noticed him taking notes.

“Did you count the director of the play?” said Sean. “He or she was probably a member of the Stage Directors and Choreographers Society. Their union agreement assures the director of vaguely defined ‘property’ rights in the play.”

“Right,” said Chase. “Twenty-six.”

“That’s a lot,” said Blake, feeling dispirited again.

“We’ll get to work on it right away,” said Chase with enthusiasm. “It will be good experience. It’s a great movie, and we’ll be honored to bask in the glow of your success when you win an Academy Award.”

“Anyway,” said Sean. “You’re our friend.”

“Feeling better,” Blake lifted his beer bottle in a salute. “Already outside counsel for my production company. Shall we call it ‘Sterling and Krebs’ or ‘Krebs and Sterling?’”

“How about ‘Chase Sean?’” said Chase. Everyone laughed and they drank some more beer.

Six months later, the deadline for most of the movie festivals had passed, while Blake, Chase, and Sean were still working to obtain clearance of the copyrights. Blake was extremely frustrated, but had taken advantage of the delay to complete several more edits and was eager to get his movie into distribution. He had several expressions of interest, fueled by his aborted effort to mount it in the now-past festival season.

The rights in the musical work “Happy Birthday” were owned by Warner Music Group. All Blake needed was performance rights for the musical work because the movie did not play someone else’s sound recording; the cast sang it themselves. Everyone knows “Happy Birthday.” But Sean and Chase learned that Warner Music Group charges a standard fee of \$10,000 for its use in a movie.³ That was approximately one-third of their total budget.

They found contact information for the producer of “Hit and Hide” only with difficulty. Since he did not respond to emails, Chase was forced to send him a certified letter, return receipt requested, addressed to him, in care of the off-Broadway theatre where he produced the play. That elicited a response from the producer’s lawyer, insisting on an up-front fee of \$5,000, plus a 20 percent royalty on the gross receipts from Blake’s movie.

The director of *Hit and Hide* responded more promptly and insisted on another \$5,000 plus a 10 percent royalty. Then she added a new complication: She was granting only live performance rights, not streaming rights. Sean wrote her back and said they would have to think about it. He regretted telling her that they already expected to get rights from the producer; she clearly intended to use that as

3. *Happy Birthday to You Song is Copyrighted: Be Careful When You Sing this Song*, ASSOCIATED CONTENT (April 22, 2010), http://www.associatedcontent.com/article/2912852/happy_birthday_to_you_song_is_copyrighted.html (reporting on royalty amounts sought for use of the song in a movie).

leverage because they would not be able to use the rights licensed from the producer without a license from her as well.

Green Day, interestingly enough, was the easiest. Sean was astonished—and delighted—to get an email from Billie Joe Armstrong himself, granting a license for \$250 total. Sean had explained that the movie played the first thirty seconds of the song in a scene portraying one of the characters listening to it and characterizing it as his favorite song. Armstrong's email said he thought that was "cool" and he was glad to lend some of his music to a good cause.

A relatively obscure song from a World War II-era musical proved especially frustrating. Hal Leonard apparently owned the rights to the musical work, but not to the sound recording. The excerpt in Blake's movie came from a cast recording, so they needed sound-recording as well as musical-work rights. Leonard responded to Chase's requests for license terms with a letter explaining that a distant heir of the composer asserted that Leonard's rights had lapsed and that several heirs now owned the work. The letter further explained that Leonard had the power to grant reproduction and public-performance rights, but perhaps not streaming rights, because streaming surely had not been in the contemplation of its original transferor, who had reserved "all other rights."

Blake couldn't find the MySpace page from which he had downloaded the other song. It seemed to have been removed, either by its sponsor or by MySpace itself.

Blake insisted on a meeting with Sean and Chase. "This is never going to end," he said to them. "I really appreciate all the effort you guys have put into this, but it seems like every time we get one problem solved, two more pop up."

"I can't disagree with you," said Sean. "I had no idea it would prove so difficult."

"Nor did I," said Chase.

"So what are my options?" said Blake.

"You can go ahead and release it, and forget about obtaining rights," said Chase.

"The downside is that if it is successful, one of the rights holders can come out of the woodwork, sue you, and obtain an injunction against further exhibition."

"Or," said Chase, "you could edit out all the stuff to which you do not have permission."

"No way!" said Blake. "I'd have to start over. Some of the most powerful scenes develop character traits around music being sung or listened to. I can't just cut the music out; it would leave ridiculous holes throughout the movie. Ian, assuming he's not completely tied up

in other projects now, will have to rewrite the scenes, then I'll have to round up the actors, assuming they are available, reshoot the scenes, and start the editing process all over again."

Sean and Chase looked at each other for a long moment.

"I think you should just go ahead," said Sean. "If someone gets an injunction, you'll be no worse off than if you go back and rework it now. And if you release it, you'll get some exposure—even more if someone sues you." He and Sean laughed heartily.

"So you are encouraging me to do what the music and movie industry says is the moral equivalent of shoplifting or house burglary?"

"That's right," said Chase. "We'll come visit you in prison."

Blake gave them both a sarcastic look; he was less than amused. He made an obscene gesture. "But we'll come see the movie beforehand—early, before they shut it down," said Sean. He and Chase laughed again, and Blake joined them, but with a little less enthusiasm.

A few days later, Blake, Sean, and Chase met in Sean's office.

"I'm sorry we haven't been able to do a better job of clearing the rights for you," said Sean. "But we want to talk about how you can go forward in a way that minimizes your risks."

"You don't want to come see me in jail, after all?" Blake said.

"No," said Chase, "and we think there are some ways to mitigate other kinds of risks as well."

"The first thing to do is to be specific about what you need or want to use for free," said Sean.

"Then we should identify those aspects of your movie that you should be willing to pay someone else for the privilege of using," said Chase. "For both of these categories, we will help you write an artistic analysis—if I may call it that—justifying the need to make use of someone else's creation."

"For the second category," said Sean, "you must make it clear by your conduct and communications that you are willing to pay a fair price for a license."

"From that point on," said Chase, "Sean and I need to go to work in crafting the best legal theories we can to create a safe harbor for you."

II. THE VIDEO ENTERTAINMENT INDUSTRY IS BESET WITH HIGH TRANSACTION COSTS FOR COPYRIGHT LICENSING

Many songs, plays, and movies become part of the popular culture. An artist like Blake, creating new material using popular

culture as a backdrop, often finds that the most evocative way to connect an audience to the context is to use a song, or to adapt a scene from a play or movie, or to include an established fictional character. The song “Happy Birthday” is an obvious example. Who would not sing it at a birthday party? If a new work concerns an iconoclastic, yet brave and righteous, character, would not a reference to the Lone Ranger or Superman be useful? If he is cynical, might not a reference to Holden Caulfield from *Catcher in the Rye* be an efficient way to define the new character?

But using these obvious techniques in the creation of a new work throws the artist into a briar patch of legal problems, most of them rooted in copyright law. Some straightforward ways of building on the icons of popular culture constitute prima facie infringement of copyrights held by the creator of such icons. The original copyrights likely have been sliced and diced so that multiple individuals and institutions now hold particular aspects of them.⁴ It is difficult to figure out who owns each aspect, and then to get in touch with them.⁵ Once they are found, they may be unresponsive to requests for permissions or they may engage in strategic behavior. The new artist needs all the pieces to move forward. If he has obtained clearance to almost all of them, the remaining rights holders have an incentive to insist on a higher price to allow him to complete the package.⁶

A. Copyright Blocks Unlicensed Use of Much Material Used as a Foundation for New Works

Sean and Chase’s expressions of caution to Blake are well founded: He risks liability for copyright infringement if he uses the

4. “In an atomistic copyright system, participants in the creative marketplace may have to track down and negotiate with many far-flung rights holders regarding many separate rights. Valuable uses of copyrighted works may therefore be prohibitively difficult or expensive.” Molly Shaffer Van Houweling, *Author Autonomy and Atomism in Copyright Law*, 96 VA. L. REV. 549, 557 (2010) (arguing that increasing the fragmentation of copyright ownership among multiple people owning different rights for differing periods of time undermines the purpose of copyright); see also Michael A. Heller, *The Tragedy of the Anticommons: Property in the Transition from Marx to Markets*, 111 HARV. L. REV. 621, 623-624 (1998) (explaining how fragmentation of property rights in a single asset can frustrate productive use of the asset); Kevin Werbach, *The Wasteland: Anticommons, White Spaces, and the Fallacy of Spectrum*, 53 ARIZ. L. REV. 213, 230-231 (2011) (explaining how the under-consumption of a resource may result when too many users possess exclusive rights in the same resource).

5. See discussion *infra* Part II.B (explaining search costs for orphan works).

6. See Harold Demsetz, *Transaction Cost and the Organization of Ownership—An Introduction*, 53 ARIZ. L. REV. 1, 4 (2011) (explaining the holdout problem in property law generally).

material they identified without obtaining licenses from the owners of the copyrights.

1. Basics

Copyright extends to novels,⁷ plays,⁸ songs,⁹ and sound recordings.¹⁰ Once Blake makes his movie, he will be entitled to his own copyright,¹¹ but it will not extend to any of the preexisting material.¹² The owners of the copyrights in the novel, the play, the songs, and any recordings of them have the exclusive right:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion picture and other audiovisual works, to perform the copyrighted work publicly;
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture of other audiovisual work, to display the copyrighted work publically; and
- (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.¹³

Unless Blake obtains licenses, the creation, distribution, and exhibition of his movie will infringe the derivative work, public distribution, performance, and display rights.¹⁴ If he streams his movie digitally, it will also infringe public performance rights¹⁵ for any sound recording.

7. 17 U.S.C. § 102(a)(1) (2006) (“literary works”).

8. *Id.* § 102(a)(3) (“dramatic works”).

9. *Id.* § 102(a)(2) (“musical works”).

10. *Id.* § 102(a)(7). Songs are “musical works.” See *Legal Issues Involved in the Music Industry*, LAWYERS FOR THE CREATIVE ARTS, http://www.law-arts.org/pdf/Legal_Issues_in_the_Music_Industry.pdf (last visited Oct. 6, 2011) (describing “musical works” as musical compositions or songs). When a song is performed, the performance is recorded, and the song is distributed in the form of a recording on CD or via the Internet, two distinct copyrights are involved, one in the musical work, the other in the sound recording. *Id.* (describing the two kinds of music copyrights).

11. 17 U.S.C. § 102(a)(6) (“motion pictures and other audiovisual works”).

12. *Id.* § 103.

13. *Id.* § 106.

14. *Id.* §§ 106(1)-(5) (granting copyright owners a reproduction right, a derivative work right, a public distribution right, a public performance right, and a public display right, respectively).

15. *Id.* § 106(6) (granting copyright owners a public performance right in sound recordings).

The possibility that his conduct might be privileged by the doctrine of fair use, codified in § 107 of the Copyright Act of 1976,¹⁶ depends on an after-the-fact judicial assessment of:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.¹⁷

While Blake is potentially liable for several instances of prima-facie infringement of the § 106 rights, some of his uses may constitute fair use.

Two aspects of copyright protection present particular problems. The first is the exclusive right to create “derivative works.”¹⁸ The second is the extension of protection to characters and plots, thus making copying of the characters or plot lines from a preexisting work an act of infringement.¹⁹

2. Derivative Works

Blake’s movie is a derivative work because it is “based on one or more preexisting works,” it is “a . . . motion picture version . . . recast[ing], transform[ing], or adapt[ing the preexisting works].”²⁰ The movie represents an original work of authorship by Blake,²¹ but that does not mean he has copyright privileges over all of its elements. The Copyright Act specifies:

The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.²²

Because his incorporation of preexisting works does not change the copyright protection of those works, his creation of a derivative work from them infringes the preexisting copyrights under the

16. *Id.* § 107.

17. *Id.*

18. *Id.* § 106(2).

19. *See* discussion *infra* Part II.A.3.

20. *Id.* § 101 (defining “derivative work”).

21. *Id.*

22. *Id.* § 103(b).

derivative-work right in § 106(2).²³ To the extent, however, that Blake used uncopyrightable expression, such as material in the public domain or mere facts or ideas, he does not infringe anything.²⁴ The Copyright Act goes on to say, “In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.”²⁵ In other words, infringement of the derivative-work right depends on copying of protected elements—the same analysis involved in a claim of infringement of the reproduction right.²⁶

3. Copyrighted Characters and Plots

Blake initially rebuffed some of Chase’s concerns because he believed that characters are not copyrightable and because his screenwriter, Ian, had only used the play as “inspiration.”²⁷ He did not understand the scope of copyright protection. One of the most vexing problems in determining what elements of a preexisting work are protected involves characters and plots.

Judge Learned Hand confronted the problem in *Nichols v. Universal Pictures Corp.*²⁸ The plaintiff, author of a play named *Abie’s Irish Rose*, claimed that the defendant’s movie, *The Cohens and the Kellys*, infringed his copyright in the play. Judge Hand observed that a copyrighted work, such as a play, can be “copied” at several different levels of abstraction. At the lowest level, a subsequent author copies words, sentences, and paragraphs verbatim. At a higher level, he may copy only the plot outline—the “story arc.”²⁹ At a still higher level, the

23. *Stewart v. Abend*, 495 U.S. 207, 223 (1990) (explaining that aspects of a derivative work added by the derivative author belong to that author, but that elements drawn from the pre-existing work remain property of the original owner).

24. *See Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 349-350 (1991) (holding that a subsequent creator may copy uncopyrightable facts compiled by a previous creator); *Mattel, Inc. v. MGA Entm’t, Inc.*, 616 F.3d 904, 916-917 (9th Cir. 2010) (holding that infringement cannot be based on copying of unprotectable elements).

25. *Id.* § 102(b).

26. A video recording of a performance is a derivative work when the recording qualifies for copyright. *Quintanilla v. Tex. Television, Inc.*, 139 F.3d 494, 500 (5th Cir. 1998) (citing example of novelist or playwright who owns derivative work right in motion picture made from novel or play when discussing video recording of live concert).

27. *See* discussion *supra* Part I.A.

28. *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930).

29. *See* Perritt, Jr., *supra* note 1, at 111-121 (explaining story arc concept with reference to narrative theory and offering examples from the popular movie *Bambi*).

subsequent author may only make a general statement of what the first play was about or reproduce only its title. Moreover,

[T]here is a point in this series of abstractions where they are no longer protected, since otherwise the playwright could prevent the use of his ‘ideas,’ to which, apart from their expression, his property is never extended. Nobody has ever been able to fix that boundary, and nobody ever can.³⁰

He found no infringement under this “abstractions test”:

In the two plays at bar we think both as to incident and character, the defendant took no more—assuming that it took anything at all—than the law allowed. The stories are quite different. . . . The only matter common to the two is a quarrel between a Jewish and an Irish father, the marriage of their children, the birth of grandchildren and a reconciliation. . . . If the defendant took so much from the plaintiff, it . . . was only a part of her ‘ideas.’³¹

Likewise, the details of the characters were different in personality and background; the only copying occurred at a higher level of abstraction: stock characters, which are unprotectable.³²

More recent cases use Judge Hand’s abstractions test, reinforcing the vitality of his conceptual approach but making results hard to predict. In *Warner Bros. Inc. v. American Broadcasting Companies, Inc.*, the court of appeals affirmed summary judgment for the defendants, holding that the fictional character Ralph Hinkley, portrayed in a television series, was not sufficiently similar to the character Superman to support a claim of copyright infringement.³³ The court provided an extensive historical analysis of copyright protection for characters, citing many cases.³⁴

In determining whether a character in a second work infringes a cartoon character, courts have generally considered not only the visual resemblance but also the totality of the characters’ attributes and traits. A pertinent consideration . . . is the extent to which the allegedly infringing character captures the “total concept and feel” of the copyrighted character. . . . “Stirring one’s memory of a copyrighted character is not the same as appearing to be substantially similar to that character, and only the latter is infringement.”³⁵

30. *Nichols*, 45 F.2d at 121 (internal citations omitted).

31. *Id.* at 121-22.

32. *Id.* A stock character is a stereotype, with few unique characteristics to distinguish him or her from similar characters in other works. See *Stock Character*, THE INTERNATIONAL SOCIETY FOR THE STUDY OF NARRATIVE, http://narrative.georgetown.edu/wiki/index.php/Stock_character (last visited Nov. 6, 2011) (providing the definition of “stock character”). Examples are a boyfriend with little career promise, or a young woman whose father opposes a romance. See *id.* (providing other examples, such as “the wicked stepmother”).

33. *Warner Bros. Inc. v. Am. Broad. Cos., Inc.*, 720 F.2d 231 (2d Cir. 1983).

34. *Id.* at 239-42.

35. *Id.* at 240-242 (internal citations omitted).

Recent litigation uses these guidelines for protection of characters and the derivative-work right in the context of fan fiction.³⁶ Two recent cases used Judge Hand's abstractions test to afford copyright protection to fictional characters; one involved Holden Caulfield from *Catcher in the Rye*, while the second involved *Harry Potter*. In *Salinger v. Colting*,³⁷ the district court granted a preliminary injunction barring publication of an unauthorized sequel to *Catcher in the Rye*, finding probability of success on prima facie copyright infringement and unlikelihood of success on a fair use defense. The accused work, *60 Years Later: Coming Through the Rye* (hereinafter *60 Years*), used the principal character of *Catcher in the Rye*, Holden Caulfield, renamed as "Mr. C," sixty years after the events portrayed in the original, reflecting on and repenting for some of the actions he took in the original novel.³⁸

Without extensive analysis in its written opinion, the district court reiterated its conclusion at an earlier hearing that the Holden Caulfield character was "distinctively delineated" in *Catcher in the Rye* and therefore qualified for copyright protection.³⁹ It also found that an ordinary observer would conclude that the character, Mr. C in *60 Years*, was the same character as Holden Caulfield, thus satisfying the test for copying and therefore for prima facie infringement.⁴⁰

36. "Fan fiction" refers to a phenomenon in which persons other than the author of a work write their own stories about characters created by the original author, usually making no pretense that the characters are different. See William W. Fisher III, *The Implications for Law of User Innovation*, 94 MINN. L. REV. 1417, 1420-1421 (2010) (describing the phenomenon of fan fiction and suggesting several different varieties); see also Anupam Chander & Madhavi Sunder, *Everyone's a Superhero: A Cultural Theory of "Mary Sue" Fan Fiction as Fair Use*, 95 CALIF. L. REV. 597, 598-601 (2007); Sonia K. Katyal, *Performance, Property, and the Slashing of Gender in Fan Fiction*, 14 AM. U. J. GENDER SOC. POL'Y & L. 461, 481-97 (2006); Aaron Schwabach, *The Harry Potter Lexicon and the World of Fandom: Fan Fiction, Outsider Works, and Copyright*, 70 U. PITT. L. REV. 387, 388-91 (2009); Rebecca Tushnet, *Legal Fictions: Copyright, Fan Fiction, and a New Common Law*, 17 LOY. L.A. ENT. L. REV. 651, 655 (1997). Fan fiction is an exploding genre, fueled by the ease with which new works by unknown authors can be disseminated on the Internet. Fisher, *supra* note 36, at 1421. "Mary Sue fiction" creates stories in which minor characters from earlier works star in new works or in which entirely new characters are inserted. *Id.* "Slash fiction" takes male characters from earlier works and puts them in gay contexts. *Id.* "Real person slash fiction" takes real people and puts them in stories involving gay relationships or encounters. *Id.*

37. *Salinger v. Colting*, 641 F. Supp. 2d 250 (S.D.N.Y. 2009), *vacated*, 607 F.3d 68, 75 (2d Cir. 2010) (holding that the district court erroneously presumed irreparable injury when granting a preliminary injunction under *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006)).

38. *Id.* at 253-254, 258-259.

39. *Id.* at 254 (quoting and citing 2 MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 2.12 (Matthew Bender, rev. ed. 2009)).

40. *Id.* Upon review, the court of appeals agreed with the district court on the plaintiff's probability of success, while vacating the injunction. *Salinger*, 607 F.3d at 70. It found that the

The second fan fiction case, *Warner Bros. Entertainment, Inc. v. RDR Books*,⁴¹ involved a claim of copyright infringement by J.K. Rowling, the author of the *Harry Potter* series, against Steven Vander Ark and RDR Books. Vander Ark had developed and published on the web a “Harry Potter Lexicon,” which provided supplementary information on the characters and events in the *Harry Potter* books.

The district court found that the Lexicon was substantially similar to the copyrighted works; thus, the plaintiff had stated a prima facie claim of copyright infringement.⁴² The Lexicon included 450 pages of new material that drew primarily from the 4,200-page *Harry Potter* series.⁴³ Most of the Lexicon’s 2,437 entries “contain direct quotations or paraphrases, plot details, or summaries of scenes from one or more of the Harry Potter novels.”⁴⁴ The defendant copied fictional facts invented by Rowling, “such as the attributes of imaginary creatures and objects, the traits and undertakings of major and minor characters, and the events surrounding them.”⁴⁵ The court held that “such invented facts constitute[d] creative expression protected by copyright.”⁴⁶

Outside the fan fiction context, courts have had to decide how to address multiple elements in a given work. As with characters and plots, infringement is possible only with respect to protectable elements. In *Sheldon Abend Revocable Trust v. Spielberg*, the plaintiff alleged that the Stephen Spielberg movie *Disturbia* infringed the plaintiff’s copyright in the short story “Rear Window” and in the derivative Alfred Hitchcock film of the same name.⁴⁷ Because the short story contained both copyrightable and uncopyrightable elements, the court had to focus on infringement of only the copyrightable elements: “[S]imilarities between unprotect[a]ble elements in the disputed works may not contribute to a determination of substantial similarity.”⁴⁸ The plot of the short story and the movie was similar; both works tell the story of male protagonists who spy on their neighbor and discover the neighbor is a murderer.⁴⁹ Such

accused and original works were substantially similar, expressly declining to decide whether the plaintiff owned a valid copyright in the character, Holden Caulfield. *Id.* at 83 n.11.

41. *Warner Bros. Entm’t Inc. v. RDR Books*, 575 F. Supp. 2d 513 (S.D.N.Y. 2008).

42. *Id.* at 538.

43. *Id.* at 535.

44. *Id.*

45. *Id.* at 536.

46. *Id.*

47. *Sheldon Abend Revocable Trust v. Spielberg*, 748 F. Supp. 2d 200, 202 (S.D.N.Y. 2010).

48. *Id.* at 204.

49. *Id.* at 208.

similarity was not enough, however, to establish infringement, because only an author's particular expression of an idea, not the idea itself, is copyrightable.⁵⁰

Copying characters also may constitute infringement, but only if the accused infringer copies specific and well-developed character attributes and traits. Broad character outlines are not protectable, and copying them is not infringement. The court compared the main characters to determine infringement:

Hal Jeffries is a male of indeterminate age. Kale has, at least initially, other pastimes to stave off boredom—television, video games, and music—while Jeffries has none. While Kale consistently finds himself in trouble with a police officer, Jeffries' close friend is a detective. Any similarities between Kale and Jeffries are too general to be afforded protection under copyright law, and when the totality of the characters' attributes and traits are considered, the dissimilarities vastly outweigh the similarities, which are qualitatively and quantitatively insubstantial in this regard.⁵¹

The court used the same reasoning with regard to the antagonist characters, explaining that the characters' similarities "amount to nothing more than age, sex, and status as a personification of evil living next door—a basic character type—and therefore do not rise to the level of protect[a]ble expression of an idea."⁵² "A stock character or basic character type . . . is not entitled to copyright protection."⁵³ Nor did the defendants infringe the setting:

Plaintiff contends that there is substantial similarity between settings in the Short Story and *Rear Window*. Plaintiff's position cannot withstand scrutiny. *Disturbia* is set in a house in suburban California while the Short Story is set in an apartment in New York City. The setting of the Short Story is Jeffries' bedroom, and more specifically, his chair within that bedroom and the view from that chair. In contrast, *Disturbia*'s setting encompasses all of Kale's house and much of his yard, as well as a shopping center, a parking garage, Ashley's house and yard, a courthouse, the wilderness, a classroom, and Turner's home. Furthermore, where Jeffries' room is impersonal—the only detail the author provides is that the books and sculpture in Jeffries' room were left by a previous tenant—Kale's room reflects his personality, and his house is furnished and decorated with personal items and photographs. Jeffries' world, as expressed in the short story, consists of what he can see from his single bedroom window. Kale, on the other hand, roams from room to room, utilizes windows throughout his home, and goes outside. The role of the windows is similar only at a high level of generalization, and thus is not protect[a]ble.⁵⁴

The court found no substantial similarity to protectable aspects of the original story. They were similar only at very general levels of abstraction, which were unprotectable.⁵⁵

50. *Id.*

51. *Id.* at 209 (citations omitted) (internal quotation marks omitted).

52. *Id.*

53. Hogan v. DC Comics, 48 F. Supp. 2d 298, 310 (S.D.N.Y. 1999).

54. *Sheldon*, 748 F. Supp. 2d at 209-10.

55. *Id.* at 210.

Applying these cases, if Blake's movie uses exactly the same characters as the novel or play, the rights holders in those preexisting works can hold him liable for infringement. If, on the other hand, the movie characters are inspired from the general types portrayed in the novel and play, his risk of liability is smaller. Similarly, his exposure to liability for infringement of the plot and setting depends on how precisely he replicates either. If he would not be liable for prima facie infringement, he does not need a license. To make matters worse, the protectability of a movie's plot and setting are difficult to predict, given the idiosyncratic factual analysis a judge or jury hearing an infringement case would likely use.

B. Search Costs Are Well Known, Especially for "Orphan Works"

Blake and his lawyer friends had little difficulty identifying the owner of rights in "Happy Birthday," or establishing that the band Green Day owns the rights to "American Idiot." Obtaining licenses to use the elements of the play, novel, and lesser-known songs presented greater challenges because it was hard to figure out who owned what.

Academic literature has recognized the problems of fractured ownership and orphan works.⁵⁶ Professor Cardi points out the costs of fragmentation, discussing what he calls "under-consolidation":

The overwhelming expense of this process cannot be underestimated, even for non-Internet-related projects.

For example, one source described the effort to clear the rights of forty-six songs for use in a DJ-mix album: "The process lasted three years, involving 865 emails, 160 faxes and hundreds of phone calls. In the end seventy-two tracks were omitted from the album because the rights could not be obtained in time[.] . . . [T]he cost of locating the appropriate agents and negotiating the requisite licenses is almost Sisyphean."⁵⁷

The "orphan works" problem confronts anyone wishing to create a derivative work, especially if the work relies on books, plays, music, or movies not produced by major institutions.⁵⁸ A study by Carnegie Mellon determined that the owner of registered copyrights for 22 percent of books sampled could not be found, that they were often unresponsive to repeated requests when they could be found,

56. See W. Jonathan Cardi, *Über-Middleman: Reshaping the Broken Landscape of Music Copyright*, 92 IOWA L. REV. 835, 838 (2007) (exploring solutions to "fractured administration of music copyrights," which "discourage[s] the licensing of music for innovative use, stifling the success of new music technologies").

57. *Id.* at 875-76 (internal citations omitted).

58. Keith Porcaro, Note, *Private Ordering and Orphan Works: Our Least Worst Hope?*, 2010 DUKE L. & TECH. REV. 15, ¶¶ 7-8 (2010).

and that an average of one hundred days elapsed before an answer was received.⁵⁹

Courts likewise recognize the “orphan works” problem. For example, in *Kahle v. Gonzales*, the court of appeals described the “orphan works” problem, even as it affirmed dismissal of the plaintiffs’ challenge to the constitutionality of the statute extending the copyright term.⁶⁰ It observed that orphan works often have little or no commercial value, even though they remain protected by copyright. It also observed that: “The difficulty and expense of obtaining permission to place those works on the Internet is overwhelming; ownership of these ‘orphan’ works is often difficult, and sometimes impossible, to ascertain.”⁶¹

Prior to 1978, the number of orphaned works was limited by a renewal requirement that the Copyright Amendments Act of 1992 eliminated,⁶² and the Sonny Bono Copyright Term Extension Act.⁶³ The effect of these statutes was to increase the number of orphaned works.

Likewise, commentators emphasize the difficulties tracing copyright of an orphaned work. As one explains: “After an author dies or a publisher gets acquired or goes out of business, tracing who owns the copyright can be nearly impossible. Poor recordkeeping during publisher mergers and acquisitions can make even publishers unaware of which out-of-print but in-copyright books remain in their control.”⁶⁴

In a 2006 report,⁶⁵ the US Copyright Office recommended legislation that would privilege good faith use of copyrighted works when a would-be licensee cannot locate the rights holder after a diligent search.⁶⁶ Congress introduced such legislation in 2008, but did not enact it.⁶⁷ The report identified four common problems facing would-be licensees: “(1) inadequate identifying information on a particular copy of the work; (2) inadequate information about

59. *Id.* ¶ 15 (reporting on a Carnegie Mellon study).

60. *Kahle v. Gonzales*, 487 F.3d 697 (9th Cir. 2007).

61. *Id.* at 698.

62. Copyright Amendments Act of 1992, Pub. L. No. 102-307, 106 Stat. 264 (1992).

63. Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998).

64. Eric M. Fraser, *Antitrust and the Google Books Settlement: The Problem of Simultaneity*, 2010 STAN. TECH. L. REV. 4, ¶ 13 (2010).

65. U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006), available at <http://www.copyright.gov/orphan/orphan-report-full.pdf> [hereinafter ORPHAN REPORT].

66. See Marybeth Peters, *The Importance of Orphan Works Legislation*, U.S. COPYRIGHT OFFICE (Sept. 25, 2008), <http://www.copyright.gov/orphan>; discussion *infra* Part VI.A.1.

67. Shawn Bentley Orphan Works Act of 2008, S. 2913, 110th Cong. (2nd Sess. 2008).

copyright ownership because of a change of ownership or a change in the circumstances of the owner; (3) limitations of existing copyright ownership information sources; and (4) difficulties researching copyright information.”⁶⁸

While it focused on printed works, the report noted that audiovisual works such as home videos or instructional films present particular difficulties.⁶⁹ That category logically includes YouTube videos and MySpace music clips as well. Situations in which a rights holder was identified, but was unresponsive, or else was insistent on a license fee that the would-be licensee perceived as unreasonable, were outside the scope of the report.⁷⁰

The legislation suggested by the report would ease Blake’s burden, as explained more fully in Part VI, below.

C. Extensive Fragmentation of Copyright Aligns Poorly with the Realities of New Technologies

Fragmentation of copyright ownership increases search costs.⁷¹ One person or entity is likely to own rights in a musical work, while others own rights in sound recordings of the work. In the hypothetical, for example, Hal Leonard owned rights to the musical works, but not in the sound recordings, and was not sure that its rights in the musical works extended to streaming. The playwright and the director owned different rights in the play. Copyright owners may exclusively license musical works and sound recordings to one studio for incorporation in a movie and to another studio for incorporation in a television series. Joint ventures abound, in which multiple persons and entities have a property interest in a project.⁷² Copyright owners are likely to separate conventional broadcast rights from Internet streaming rights, which owners can also separate from Internet downloading rights.⁷³ Similarly, owners may split off public performance rights from reproduction rights, which they may also

68. ORPHAN REPORT, *supra* note 65, at 22.

69. *Id.* at 25.

70. *Id.* at 34.

71. *See supra* note 4.

72. *See* Ladd v. Warner Bros. Entm’t, Inc., 110 Cal. Rptr. 3d 74, 77 (Ct. App. 2010) (addressing a dispute over royalty allocation from a joint venture, “essentially a ‘mini-studio’ within a studio,” in which Ladd had control over development, production, and distribution of movies, while Warner was obligated to finance them).

73. Cydney A. Tune & Christopher R. Lockard, *Navigating the Tangled Web of Webcasting Royalties*, 27 ENT. & SPORTS L. 20, 20 (2009) (explaining that permanent downloads, ringtones, CDs, podcasts, commercials, videos, and streaming implicate different licensing and royalty schemes).

divide from public distribution rights. The fragmentation problem is especially acute when audiovisual works are involved. The likelihood that one project has the potential to earn revenue in different markets—live concerts and merchandise as well as sales of recordings for music; DVDs, primetime and rerun exhibition on television, as well as original-release theatrical exhibition for movies—broadens the opportunity to offer many different kinds of property rights to collaborators and investors.⁷⁴ The producer can grant first exhibition rights to theatrical distribution firms, while granting primetime television broadcast rights to television networks or cable entities and granting television rerun rights to someone else. Foreign distribution and exhibition rights are transferred to others. DVD rights and foreign distribution and exhibition rights will likely end up with still others. The screenwriter may insist on derivative work rights. A celebrity actor may insist on international first-release, theatrical exhibition rights.⁷⁵

The problems that such fragmentation cause have become particularly evident as new technologies change formats, methods of distribution, and the ways in which consumers experience entertainment. For example, fragmentation frustrated early entrepreneurial efforts to exploit the Internet for distributing popular music. In *Country Road Music, Inc. v. MP3.com, Inc.*, the defendant, an Internet music distributor, had obtained licenses from the three major performing rights societies allowing it to perform musical compositions over the Internet.⁷⁶ The licensors, however, did not license reproduction or distribution rights in the musical works and also lacked the power to license any rights in the sound recordings.⁷⁷ The district court granted summary judgment to plaintiff rights holders on several of their copyright infringement claims.⁷⁸

As a second example, difficulties Hulu faced obtaining fragmented rights to the television show *If I Can Dream* complicated its international expansion. The show itself was owned by 19 Entertainment, which made acquisition of the audiovisual work rights straightforward. Hulu, however, had to clear rights to every recorded

74. Cf. Anne M. Wall, *Sports Marketing and the Law: Protecting Proprietary Interests in Sports Entertainment Events*, 7 MARQ. SPORTS L.J. 77, 86, 162-63 (1996) (suggesting that financial returns can be increased by licensing different aspects of sports events).

75. The author identifies these possibilities from his knowledge of the theatrical and movie industries.

76. *Country Road Music, Inc. v. MP3.com, Inc.*, 279 F. Supp. 2d 325, 327 (S.D.N.Y. 2003).

77. *Id.* at 327-28.

78. *Id.* at 333.

song in the show in every territory, leading commentators to conclude that Hulu's plans for international streaming could fall through.⁷⁹ Netflix's 2009 annual report explains the problem for the video entertainment industry:

Streaming content over the Internet involves the licensing of rights which are separate from and independent of the rights we acquire when obtaining DVD content. Our ability to provide our subscribers with content they can watch instantly therefore depends on studios and distributors licensing us content specifically for Internet delivery. The license periods and the terms and conditions of such licenses vary. . . . In addition, the studios have great flexibility in licensing content. They may elect to license content exclusively to a particular provider or otherwise limit the types of services that can deliver streaming content. For example, HBO licenses content from studios like Warner Bros. and the license provides HBO with the exclusive right to such content against other subscription services, including Netflix. As such, Netflix cannot license certain Warner Bros. content for delivery to its subscribers while Warner Bros. may nonetheless license the same content to transactional VOD [Video on Demand] providers. If we are unable to secure and maintain rights to streaming content or if we cannot otherwise obtain such content upon terms that are acceptable to us, our ability to stream movies and TV episodes to our subscribers will be adversely impacted, and our subscriber acquisition and retention could also be adversely impacted.⁸⁰

Exploitation of preexisting works through new technologies does not fit within the market structures that gave rise to the division of property interests when the original deals were made. Streaming a movie through the Internet, for example, simultaneously constitutes reproduction, public distribution, and public performance.⁸¹ Older technologies required separation of these acts exclusively reserved to the copyright owner. Reproduction of a film occurred through "print making," typically performed by a movie studio.⁸² Public distribution was the province of distributors, usually entities separate from the studio or the theatre. Public performance occurred only when the film was shown in a theatre or on television. The theatrical exhibitors and television exhibitors were separate firms.⁸³ Rights to perform each of

79. *Hulu to Start Streaming Outside the US Early 2010*, WORLDTVPC.COM, (Dec. 19, 2009, 7:14 AM), <http://www.worldtvpc.com/blog/hulu-start-streaming-early-2010>.

80. NETFLIX, NETFLIX 2009 ANNUAL REPORT 10-11, *available at* <http://www.shareholder.com/visitors/dynamicdoc/document.cfm?documentid=2789&companyid=NFLX&page=1&pin=&language=EN&resizethree=yes&scale=100&zid=d940c238>.

81. Streaming involves copying the data bits that comprise the audiovisual work from non-volatile memory into volatile memory (reproduction), transmitting the bits to any user who requests the audiovisual work (public distribution), further copying of the bits to video memory on the hardware of the requester, and rendering of the image from the bits on the video screen of the requester (public performance). *See generally* Tracy V. Wilson, *How Streaming Video and Audio Work*, HOWSTUFFWORKS (Oct. 6, 2011), <http://computer.howstuffworks.com/internet/basics/streaming-video-and-audio.htm>.

82. HAROLD L. VOGEL, ENTERTAINMENT INDUSTRY ECONOMICS: A GUIDE FOR FINANCIAL ANALYSIS 48-51 (Cambridge Univ. Press, 6th ed. 2004).

83. *Id.*

these activities were usually assigned separately. The multiplicity of holders of rights to engage in what now an integrated activity gives rise to the type of market failure known as the anticommons.⁸⁴

Referring to this Article's hypothetical, Blake's peril is intensified by the possibility that a rights holder unknown to him or his lawyers might exercise the power to terminate an assignment of rights to him. In *Classic Media, Inc. v. Mewborn*, the court of appeals, reversing the district court, held that the heir of a copyright owner could terminate an assignment of a copyright during its renewal term.⁸⁵ The case involved the assignment of motion picture, television, and radio rights to the story of *Lassie*.⁸⁶ The court held that one of the original author's daughters was entitled to terminate the renewal copyright interests in the story, now embedded in a television series and about to be made into a movie.⁸⁷ Authors and designated heirs thus are able to "negotiate additional compensation for previously granted rights."⁸⁸

Some rights holders engage in rent-seeking behavior, known as holding out.⁸⁹ If twenty different persons own the rights that a creator must license for a new project to proceed, each person has an incentive to wait until the creator makes licensing deals with most other rights holders, and then to insist on a premium for allowing the project to go forward. Similarly, each rights holder has an incentive to wait until the potential licensee has invested substantial amounts of capital that he cannot recover without a license. In such circumstances, the potential licensee is likely willing to pay a higher price for the last license or two, without which his project will be a failure. This is the holdup problem in property markets, addressed in Part III.B, above.

Industry organization under older technologies encouraged fragmentation of rights ownership. Newer technologies require licenses from multiple rights holders to incorporate parts of a single preexisting work into one new work. The fragmentation increases search costs and the likelihood of holdup.

84. See *supra* note 4.

85. *Classic Media, Inc. v. Mewborn*, 532 F.3d 978, 983 (9th Cir. 2008).

86. *Id.* at 979-80.

87. *Id.* at 986.

88. *Id.* at 984; see also 17 U.S.C. § 304(c)(6)(A) (2006) ("A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination, but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.").

89. See Demsetz, *supra* note 6.

D. Existing Clearance Services Are Insufficient

Several firms offer copyright clearance services.⁹⁰ ASCAP, for example, offers licenses for interactive and non-interactive web performances of songs.⁹¹ It also offers rights clearance to broadcast and cable television stations and cable systems.⁹² It does not offer rights clearance for moviemakers or producers of plays, however.⁹³ BMI similarly offers clearance to bars and restaurants, adult entertainment venues, local government entities, live venues, TV and radio stations, and websites, but not to movie or drama producers like Blake.⁹⁴ The US Copyright Office designates SoundExchange as the exclusive copyright collective for satellite radio, cable TV music channels, and web-based streaming of sound recordings.⁹⁵ It does not clear copyright for audiovisual works, including movies.⁹⁶ The Copyright Clearance Center (CCC)⁹⁷ is a private firm that obtains copyright clearance for a fee.⁹⁸ It focuses on texts, but not musical, dramatic, or audiovisual works.⁹⁹ Other firms, such as EMG, Inc.,¹⁰⁰ advertise that they obtain clearances for music for a negotiable fee.¹⁰¹ EMG offers a web-based form for the would-be licensee and promises a quote for obtaining clearance.¹⁰² iCopyright¹⁰³ reports that it

90. See Letter from Steven J. Metalitz, Counsel, Smith & Metalitz LLP, to Jule L. Sigall, Assoc. Register for Policy & Int'l Affairs, US Copyright Office (Mar. 25, 2005), available at <http://www.copyright.gov/orphan/comments/OW0646-MPAA.pdf>; see also Steven Marks, *Orphan Works: Comments of The Recording Industry Association of America (RIAA) in Response to Copyright Office Notice of Inquiry* (Mar. 25, 2005), <http://www.copyright.gov/orphan/comments/OW0687-RIAA.pdf> [hereinafter *RIAA Comment*].

91. *License Agreements*, ASCAP, <http://www.ascap.com/licensing/digital/reports> (last visited Oct. 1, 2011).

92. *ASCAP Payment System*, ASCAP, <http://www.ascap.com/members/payment> (last visited Oct. 19, 2011).

93. See *id.*

94. See *Get a BMI License*, BMI, <http://www.bmi.com/licensing> (last visited Oct. 1, 2011).

95. See SOUND EXCHANGE, <http://www.soundexchange.com> (last visited Oct. 1, 2011).

96. See *id.*

97. COPYRIGHT CLEARANCE CENTER, <http://www.copyright.com> (last visited Oct. 1, 2011).

98. *About Us*, COPYRIGHT CLEARANCE CENTER, <http://www.copyright.com/content/cc3/en/toolbar/aboutUs.html> (last visited Oct. 19, 2011).

99. See *id.* ("Copyright Clearance Center (CCC) is a global rights broker for the world's most sought after print and online content, from books, journals and newspapers to blogs and images.").

100. EMG, INC. MUSIC CLEARANCE, <http://www.clearance.com> (last visited Oct. 1, 2011).

101. See *About: Fees*, EMG, INC. MUSIC CLEARANCE, <http://www.clearance.com/fees.htm> (last visited Oct. 1, 2011).

102. *Getting Clearance: Let Us Do It*, EMG, INC. MUSIC CLEARANCE, http://www.clearance.com/get_letusdoit.asp (last visited Oct. 1, 2011).

processed four million licenses for rights to online content in 2010.¹⁰⁴ It, like the CCC, focuses on textual materials.¹⁰⁵ GreenLight¹⁰⁶ advertises that it obtains clearances to music, film and TV.¹⁰⁷ Its website provides only a simple contact form, with no details about pricing or the scope of its access to rights holders.¹⁰⁸ It also advertises artist representation services and emphasizes its relations with major producers and celebrities.¹⁰⁹ The Rights Workshop¹¹⁰ advertises that it negotiates licenses for musical compositions, film clips, photo stills, and online distribution.¹¹¹ These firms do some of what Sean and Chase have offered to do for Blake, albeit with more experience and, presumably, established relationships with some of the rights holders. No equivalent of ASCAP, BMI, or Soundscan exists to clear rights for moviemakers. Moreover, none of the established entities is comprehensive in scope. All of them concentrate on one class of licensees, or on only one category of licensor. The problem for Blake is that the existing clearance services, like the rights they would clear, are fragmented.

E. The Result Is Market Failure

These conditions create a thinned-out art; movies have less rich offerings of society's previous artistic successes and thus a less convincing portrayal of popular culture. Worse, some works, such as Blake's movie, may not get made at all. Either the transaction costs involved in trying to obtain rights consume the limited capital

103. ICOPYRIGHT, www.icopyright.com (last visited Oct. 1, 2011).

104. *Four Million Copyright Licenses Fulfilled by iCopyright: New Features and Broader Availability Fuel Growth*, ICOPYRIGHT (Oct. 18, 2010), <http://info.icopyright.com/four-million-copyright-licenses-fulfilled-by-icopyright>.

105. *See About iCopyright*, ICOPYRIGHT, <http://info.icopyright.com/about-icopyright> (last visited Oct. 1, 2011) ("As an intelligent copyright system for digital content, iCopyright helps publishers and independent creators protect, promote, syndicate and monetize their content—from news and editorial articles, to blogs and independent creative works.").

106. GREENLIGHT, www.greenlightright.com (last visited Oct. 1, 2011).

107. *Who We Are*, GREENLIGHT, <http://www.greenlightright.com/us/index.php> (last visited Oct. 25, 2011) ("GreenLight is a leading global consultancy, providing corporate, advertising, and media clients access to iconic music, film, celebrities, and entertainment content.").

108. *Contact Us*, GREENLIGHT, <http://greenlightright.com/us/contact.php> (last visited Oct. 25, 2011).

109. *See id.* (form); *Services*, GREENLIGHT, <http://www.greenlightright.com/us/services/index.php> (last visited Oct. 1, 2011) (description of services).

110. THE RIGHTS WORKSHOP, <http://www.rightsworkshop.com> (last visited Oct. 1, 2011).

111. *Copyright Clearance*, THE RIGHTS WORKSHOP, <http://www.rightsworkshop.com/copyright-clearance> (last visited Oct. 1, 2011).

supporting production of these movies or the enormous endeavor discourages the artist from undertaking the project at all.

The problem is exacerbated because, as James Gibson explains,¹¹² ambiguities in the boundaries of copyright protection lead risk-averse users¹¹³ to “secur[e] copyright licenses even when none is needed. Better safe than sued.”¹¹⁴ This overly cautious licensing phenomenon, he explains, tends to extend the areas of ambiguity.¹¹⁵ Copyright owners point to existing licensing practices, including limitations they commonly impose, as proof that legal protection extends to the licensed use; thus extending the bounds of what uses require a license¹¹⁶

III. THE PROBLEMS CONFRONTING VIDEO ENTERTAINMENT ARE WELL KNOWN IN PROPERTY MARKETS GENERALLY

Copyright law is justified by the need to protect against a certain type of market failure: free riding.¹¹⁷ Free riding represents a transaction cost. But free riding is just one transaction cost; copyright law, therefore, should extend to other transaction costs that might otherwise discourage creative effort by people like Blake.

A. Coase on Market Failure, Externalities, and Transaction Costs

In his 1960 article titled “The Problem of Social Cost”,¹¹⁸ Ronald Coase posited that, absent transaction costs, parties will bargain in such a way as to lead to an efficient outcome and that legal entitlements are therefore unnecessary and/or irrelevant.¹¹⁹ The validity of these propositions, however, turns upon an assumption that

112. James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882 (2007).

113. Risk aversion is greater the more money the potential licensee has. *Id.* at 892-93. (explaining that the more money one has to lose in initial investment and expected revenue, the more one can bear the cost of obtaining licenses, and multi-tiered distribution leads to more entities seeing assurances that infringement risk is small).

114. *Id.* at 884.

115. *Id.*

116. *Id.*

117. Free riding refers to the ability of someone to appropriate the creative efforts of another to exploit the market for the creative efforts, undercutting the price required by the original creator to recover his investment. *See New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 307 n.6 (9th Cir. 1992) (explaining that the purpose of copyright law is to prevent free-riding on another's work).

118. *See* Ronald H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1, 2-6, 15-17 (1960).

119. *Id.*

rarely, if ever, holds true in reality: namely, an absence of transaction costs that may result in “market failure.”¹²⁰ This section begins with a brief primer on Coasean economics, elaborating on these basic concepts.

In Coasean economics, “costs” can take several forms and be classified in different ways.¹²¹ Some of the more familiar categories include administrative, agency, and bargaining costs (among others).¹²² Administrative costs are the costs of applying and enforcing legal duties.¹²³ For example, should a copyright holder attempt to enforce his rights against Blake, who opposes such action by asserting his own privileges, administrative costs would arise, such as lawyer fees and litigation expenses. Agency costs are the costs incurred by the principal when an agent pursues his own interests.¹²⁴ If Sean and Chase encourage Blake to engage in conduct that gives rise to a lawsuit because they want litigation experience rather than because they believe it is in Blake’s best interest, the costs imposed on Blake are agency costs. Bargaining costs are the costs incurred in dealing and negotiating with others in order to achieve a desired end.¹²⁵ An example would be the costs to Blake of negotiating with the other copyright holders in the hypothetical. Search costs are a subset of bargaining costs addressed below. They are the costs incurred in the pursuit of identifying the entitlement or copyright holders, the people with whom Blake must bargain.¹²⁶ Strategic bargaining costs are a subset of bargaining costs that directly address holdout and freeloader phenomena.¹²⁷ A holdout takes place when one party

120. See Simone A. Rose, *On Purple Pills, Stem Cells, and Other Market Failures: A Case for a Limited Compulsory Licensing Scheme for Patent Property*, 48 HOW. L.J. 579 (2005).

121. See Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 1052-61 (1997).

122. Administrative costs are those generally associated with litigation or enforcement, while agency costs are those costs associated with hiring other people to carry out the employer’s various tasks. See Stephen Fraidin & Jon D. Hanson, *Toward Unlocking Lockups*, 103 YALE L.J. 1739, 1834 (1994) (explaining administrative costs and agency costs in the corporation law context); Glynn S. Lunney, Jr., *Patent Law, the Federal Circuit, and the Supreme Court: A Quiet Revolution*, 11 SUP. CT. ECON. REV. 1 (2004) (explaining administrative costs and agency costs as types of market failure).

123. See Fraidin & Hanson, *supra* note 122; Lunney, *supra* note 122.

124. John C. Coffee, Jr., *Litigation Governance: Taking Accountability Seriously*, 110 COLUM. L. REV. 288, 296 n.19 (2010) (defining agency costs in the corporation law context).

125. See Jonathan Dowell, *Bytes and Pieces: Fragmented Copies, Licensing, and Fair Use in a Digital World*, 86 CALIF. L. REV. 843, 856 (1998) (“Bargaining costs more obviously refer to the expense of negotiating with a distant party.”).

126. See generally Joshua A.T. Fairfield, *The Search Interest in Contract*, 92 IOWA L. REV. 1237, 1242-51 (2007) (defining and explaining search costs).

127. *Id.*

engages in “rent seeking” behavior,¹²⁸ by stalling in the hopes that the other party will raise its offer price, usually above the market rate. Free-riding occurs when one party gains the benefit of an activity without having to pay for it, effectively forcing others to pick up the slack.¹²⁹ The net result is underproduction of the activity.¹³⁰

B. Holdout and Free-riding Problems

Holdout problems, a form of “strategic behavior,” occur in a variety of different settings. The traditional analysis of holdout issues focuses on conventional real property disputes in conjunction with the utilization of easements between private parties. Party A wishes to obtain something that she is unable to procure without the consent of parties B, C, and D due to a previously agreed upon easement. Parties B and C consent while D “holds out” in the hopes that he can reap a disproportionate amount of return in excess of his own opportunity cost and the going market price.

In the hypothetical, Blake faces a potential holdout problem with copyright issues. Both the producer and director of the musical upon which Blake’s movie was based, *Hit and Hide*, demanded large shares of any potential profits derived from future revenues that Blake’s movie might generate. If they made these demands solely based on the knowledge that Blake’s movie could not move forward without their approval and the amount they were requesting was objectively disproportionate to the value the musical added to the movie, they would be “holding out” in the most literal sense.

As it relates to rights holders, Professor Mark A. Lemley notes that rights holders also engage in strategic behavior in the form of lying and concealing information.¹³¹ They play “chicken” by convincing their opponents that they are irrational enough to kill the entire deal unless they get more than their “fair” share.¹³²

128. In economics, rent seeking is an attempt to obtain economic rents (i.e. payments for the use of an economic asset in excess of the market price) through government intervention in the market. Paul M. Schwartz, *Where Do We Go From Here? The Battle Against Predatory Subprime Lending*, 3 BROOK. J. CORP. FIN. & COM. L. 213, 218 n.43 (2008) (defining rent seeking); *Rent-seeking*, WIKIPEDIA, <http://en.wikipedia.org/wiki/Rent-seeking> (last updated Sept. 27, 2011); see also Demsetz, *supra* note 6 (discussing holding out as an example of rent-seeking behavior).

129. Amos. B. Elberg, *Remedies for Common Interest Development Rule Violations*, 101 COLUM. L. REV. 1958, 1982 n.145 (2001).

130. *Id.*

131. Lemley, *supra* note 121, at 1058.

132. *Id.* at 1058-59.

Free-riding takes place in a starkly converse manner. Instead of a purchaser seeking to acquire a piece of property, a freeloader gains the benefit of a property without having to pay for it. The benefit, in essence, is undeniable to all while the cost is isolated and borne by a select few, especially interested members. Suppose that Blake, thoroughly frustrated with the problems encountered in trying to seek out and negotiate with the owners of the copyrighted material, moves forward with the project without paying for any of the copyrighted material. Blake would be free-riding off the work of others in order to advance his own desired ends.

C. Collective Action Costs

Blake's dilemma implicates a specialized category of transaction costs associated with collective action. The rights holders with whom Blake wants to deal might benefit from banding together to deal with all the Blakes in the world¹³³ collectively. Similarly, Blake might benefit from banding together with all the other Blakes in the world. As the following analysis and Part IV.D.2 suggest, however, while collective action reduces transaction costs in other parts of the entertainment industry, collective action relevant to Blake's needs is unlikely.

In his 1965 book, *The Logic of Collective Action: Public Good and the Theory of Groups*, Mancur Olson challenged the notion that everyone in a group organized in furtherance of a common goal will work to achieve that goal.¹³⁴ Olson theorized that individuals in a large group will instead "free ride"¹³⁵ off the efforts of others in the group if the group is working to provide public goods.¹³⁶ All group members gain when each individual does his share, but for any individual, the marginal cost of contributing exceeds the benefit; therefore, the shared responsibility is shirked by most.¹³⁷ Olson posits: (1) A group diverse and dispersed, regardless of purpose, will have a difficult time organizing their collective efforts in furtherance

133. Figuratively speaking, of course. The point is not being named "Blake." The point is being an indie moviemaker needing to clear rights for material incorporated in new movies.

134. MANCUR OLSON, *THE LOGIC OF COLLECTIVE ACTION: PUBLIC GOODS AND THE THEORY OF GROUPS* 16 (Harvard Univ. Press 1971) ("The [efforts of the] individual member of the typical large organization . . . will not have a noticeable effect on the situation of his organization . . .").

135. *Id.* at 15-16 ("[An] individual member . . . can enjoy any improvements brought about by others whether or not he has worked in support of his organization.").

136. *Id.* at 57-58 (explaining public good concept).

137. *Id.* at 28.

of their shared goals;¹³⁸ and (2) “Group apathy” drastically diminishes in the context of a smaller, more personal setting.¹³⁹

The collective action problem exists at multiple levels with regard to the licensing of preexisting copyrights for moviemakers. The existing system for clearance of copyright for musical works, exemplified by ASCAP, BMI, and SoundExchange, reduces search costs for licensees and also search and enforcement costs for rights holders. Similar efficiencies might result from collective clearance of rights desired by moviemakers. The likelihood of such collectives coming into existence and being sustainable, however, depends on the relative costs and benefits in the video entertainment market, as compared to the music performance market. The effectiveness of the existing copyright collectives results from the large scope of their representation, which in turn results from the advantages they offer to rights holders. Similar advantages are attenuated with respect to the market for video entertainment, as explained in this section below, and in Part IV(D).

Economist Stanley M. Besen, in his analysis of the economics of copyright collectives,¹⁴⁰ makes use of Olson’s insights to offer eight assumptions about the structure of the market for copyrighted songs and the economics of collective administration of rights:

- (1) “[I]t is less expensive for a single agent to monitor establishments on behalf of a large number of songwriters than it is for multiple agents, each representing a single songwriter, to monitor the same establishments.”¹⁴¹
- (2) By combining their efforts, a group of songwriters can enforce copyright better than individual songwriters;
- (3) Establishments value music because the performance of music increases their revenues from the sale of tickets, food, drink, and the like;
- (4) All songs are fungible, so that the value of music depends only on the number of songs played, not on the particular titles played;

138. *Id.* at 29.

139. See JAMES M. BUCHANAN, *THE DEMAND AND SUPPLY OF PUBLIC GOODS* § 5.5.23 (Liberty Fund, Inc. 1999) (“It is worth noting that there are no personal elements in the individual’s calculus of decision here, and, for this reason, the ‘free-rider’ terminology so often used in public-goods theory is itself somewhat misleading. The individual is caught in a dilemma by the nature of his situation; he has no sensation of securing benefits at the expense of others in any personal manner. And to the extent that all persons act similarly, no one does secure such benefits. Free rider, literally interpreted, more closely describes the small-number model, in which the individual does compete explicitly with others in a personal sense. Here, ‘let George do it’ means just that, with George fully identified. But the small-number model is not appropriate for analyzing the theory of public goods. In the relevant large-number setting, the individual does not really say to himself, ‘let George do it’; he simply treats others as a part of nature.”).

140. Stanley M. Besen et al., *An Economic Analysis of Copyright Collectives*, 78 VA. L. REV. 383 (1992).

141. *Id.* at 390-91.

- (5) Users experience diminishing returns; as the number of songs available in any establishment increases, each additional song contributes less value to the establishment than previous songs;
- (6) The marginal cost of composing each song is identical;
- (7) The collective issues blanket licenses that permit all works in its catalog to be performed an unlimited number of times;
- (8) The collective is unregulated.¹⁴²

Blake's situation has some important differences from the market context in which copyright collectives have arisen. First, unlike copyrighted music being played in a bar, Blake's use of copyrighted material in his movie will be fairly easy for rights holders to detect. If they detect it, the large statutory damages authorized in the present copyright statute¹⁴³ promise a much greater reward to rights holders than the damages they could prove under copyright statutes in effect in the early part of the twentieth century.¹⁴⁴ Second, Blake, unlike the owner of a bar or a radio station has no particular need for a blanket license. He needs licenses for only a handful of works. Third, unlike a radio or television network, Blake is not likely to be a repeat player with respect to the same works.

Accordingly, the benefits of a copyright collective to both Blake and the people with whom he needs to deal are muted, compared with the contexts giving rise to ASCAP, BMI, and Sound Exchange. Collective action may reduce transaction costs in other parts of the entertainment industry, but not in an indie moviemaker's case.

IV. MODELS FOR SOLVING BLAKE'S PROBLEM

A variety of models exists for reducing Blake's transaction costs. Some are embedded in the current Copyright Act.¹⁴⁵ Others exist in legal regimes distinct from copyright law but confronted with similar types of transaction costs. Others are purely speculative.

A. Using Without Paying

The optimal outcome for Blake would be not having to pay anything for use of the preexisting works, no matter how much of them he used, and no matter how essential they were to his creative

142. *Id.* at 390-92 (enumerated by Author).

143. *See* 17 U.S.C. § 504(c) (2006) (authorizing up to \$30,000 in statutory damages for each act of infringement).

144. *Compare id.*, with Copyright Act of 1909, ch. 320, § 25, 35 Stat. 1075, 1081-82 (current version at 17 U.S.C. § 504 (2006)) (damage recovery provision).

145. *See* discussion *infra* Parts IV.A.3-4, IV.B.2, IV.C., IV.D.1.

effort. But if Blake sees some “unused”¹⁴⁶ acreage on Jessica’s horse farm, should the law privilege him to appropriate a half-acre to build a movie set? He may argue that social utility would be served better by allowing the movie set rather than letting a small portion of Jessica’s land remain in grass for an occasional horse visit. But the law of property does not work this way. A crucial “stick” in the bundle of rights comprising property is the right to exclude.¹⁴⁷

No conceivable justification exists for giving Blake a blanket exemption from copyright law just because he is young and wants to make a movie. On the other hand, Blake should be entitled to the same privileges available to any other creator of new works, interpreted to accommodate the realities of the new marketplace and the well-established aspects of market failure for copyright.

1. Narrowing the Protection of Certain Elements

Copyright does not extend to “any idea, . . . concept, [or] principle, . . . regardless of the form in which it is described, explained, illustrated, or embodied in such work.”¹⁴⁸ That means that Blake can use the “ideas” and “concepts” from the play and the novel without infringing any copyright. The challenge, of course, is to discover the line separating “ideas” and “concepts” from protected expression. The cases involving protection of plots and characters, analyzed in Part III.A.3, show that the more that Blake uses higher-level abstractions of the creative elements of the play and the novel, the safer he is. The more he uses specific aspects of preexisting characters and the more closely his story structure tracks that of the play or the novel, the greater his risk.

2. Privileges Under Special Circumstances

While the current Act recognizes some special privileges, most of them do not adequately address Blake’s problems. The Orphan Report cited two provisos of existing law that permit use of works as to which a license cannot be obtained.¹⁴⁹ Section 108 allows libraries and archives to reproduce, distribute, display or perform a published

146. Some of the works that Blake wants to incorporate into his movie are not “unused,” but many orphan works are.

147. *United States v. Craft*, 535 U.S. 274, 283 (2002) (observing that the right to exclude is “one of the most essential sticks in the bundle of rights that are commonly characterized as property” (quoting *Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979) (internal quotation marks omitted))).

148. 17 U.S.C. § 102(b).

149. ORPHAN REPORT, *supra* note 65, at 44.

work during the last twenty years of its copyright term unless (1) it is being commercially exploited, (2) a copy can be obtained at a reasonable price, or (3) the copyright owner takes the position that these conditions exist.¹⁵⁰ The effect is to “allow[] use of a work without permission by libraries and archives if the work is not subject to normal commercial exploitation and is not obtainable at a reasonable price.”¹⁵¹

Section 114 privileges certain broadcasts and digital transmissions of sound recordings.¹⁵² The statutory “mechanical license” under § 115 allows anyone to distribute phonorecords of nondramatic musical works if the copyright owner has authorized distribution of phonorecords of that work to the public, if the statutory licensee notifies the copyright owner, or, if the owner cannot easily be located, the Copyright Office.¹⁵³ The Orphan Report explains the privilege:

Thus, a would-be user who is not able to locate the owner may make and distribute phonorecords of the orphan work according to the terms of the statutory license, provided he satisfies the conditions of § 115(b)(1)—and may continue to do so royalty-free until the owner files a registration or other record with the Copyright Office, at which point the work would no longer be an orphan work.¹⁵⁴

Neither of these provisos helps Blake. He is not running a library or an archive. He is not distributing sound recordings. He is not making a phonorecord; he is making a movie. While the current Act recognizes some special privileges, they do not adequately address Blake’s problems. The more general fair use privilege, however, analyzed in the next Part, provides a limited safe harbor to Blake.

3. Adapt the Fair Use Privilege

Even if Blake uses protected expression, the fair use doctrine may privilege his conduct.¹⁵⁵ The fair use doctrine in copyright law, codified in § 107 of the Copyright Act,¹⁵⁶ saves one from liability even

150. 17 U.S.C. § 108(h).

151. ORPHAN REPORT, *supra* note 65, at 46 (describing the effect of § 108).

152. 17 U.S.C. § 114.

153. ORPHAN REPORT, *supra* note 65, at 47.

154. *Id.* at 47-48 (describing § 115).

155. The Orphan Report suggested that fair use could mitigate some of the orphan works problems, although it did not offer any concrete guidance. *Id.* at 56. The Report noted that many commentators expressed concern about uncertainties about the boundaries of fair use, while setting forth facts that “should not have given those users any pause in whether they could use the work,” under the fair use doctrine. *Id.* It also noted that uncertainties about fair use inhibited many owners of orphan works from pursuing infringement actions. *Id.*

156. 17 U.S.C. § 107.

though he has engaged in a type of conduct reserved exclusively to the copyright owner by § 106¹⁵⁷ such as reproduction, preparation of a derivative work, public distribution, public performance, or public display of protected elements.¹⁵⁸

Analysis of the four statutory factors for fair use, consideration of the special position of works that have become part of popular culture, and market impact analysis suggest the possibility of a safe harbor for Blake, at least for some of the copyrighted material he has used.

The doctrine requires consideration of four non-exclusive factors in deciding whether a particular unlicensed use of a copyrighted work qualifies as fair use:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.¹⁵⁹

Under the literal language of the statute and the *Salinger*, *Warner Brothers*, and *Bouchat* cases, considered in Part IV.A.3, interpreting the fair use privilege, a prima facie infringer who incorporates the entirety of a copyrighted work (factor three) that is itself commercial (factor two) into her own commercial work that contains little new expression (factor one), thereby appropriating some of the market for the original work (factor four) does not qualify for the fair use privilege. Conversely, a law school professor who incorporates two sentences from a student paper (factor three), not intended for commercial exploitation (factor two), into a course web page (factor one), is likely to qualify for the privilege.

Blake is somewhere in the middle. Factors one and four strongly favor Blake's position. Blake's use is transformative;¹⁶⁰ his use of the preexisting material would have no material adverse effect on the market for the original works. Factor two weighs against him

157. *Id.* at 106.

158. *Id.*

159. *Id.* § 107. With respect to the first factor, the Supreme Court has held that the commercial character of a new work does not create a presumption against fair use. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 584-85 (1994) (reversing the court of appeals on the point; holding that the commercial character of a new work does not create a presumption against fair use).

160. *See* discussion *infra* Part IV.A.3.a.

for the preexisting material that was or is being commercially exploited, but in his favor for the YouTube videos and music, which may not have been posted for commercial exploitation, especially since they were removed.¹⁶¹ Factor three weighs against him for the songs if he uses them in their entirety, as opposed to short excerpts. This factor favors him on the play and the novel because he is using only certain aspects of characters and plot ideas. Indeed, copyright may not protect those aspects at all. The following sections explain these factors in greater depth, as applied to Blake's case.

a. Purpose and Character of Blake's Use: Transformative

Transformative works¹⁶² are more likely to constitute fair use under the first statutory factor, 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."¹⁶³ In *Salinger v. Colting*, the court explained the rationale for privileging "transformative works":

Although a transformative use is not strictly required for the Defendant to establish the defense of fair use, 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.¹⁶⁴

In *Warner Bros. Entertainment Inc. v. RDR Books*, the court found the Harry Potter Lexicon to be transformative, intended for reference as opposed to pure entertainment purposes.¹⁶⁵ Its lack of critical analysis or humor was not determinative of its status as transformative.¹⁶⁶ On the other hand, the *RDR Books* court found that the defendant's use was commercial, intended to profit from the entertainment value of the original works.¹⁶⁷ In *Perfect 10, Inc. v.*

161. See discussion *infra* Part IV.A.3.b.

162. A transformative work is one that "adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message," as opposed to merely "superseding the objects of the original creation." *Campbell*, 510 U.S. at 569, 579.

163. *Id.* at 579.

164. *Salinger v. Colting*, 641 F. Supp. 2d 250, 256 (S.D.N.Y. 2009) (internal quotation marks omitted), *vacated*, 607 F.3d 68, 75 (2d Cir. 2010) (holding that the district court erroneously presumed irreparable injury in granting a preliminary injunction under *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 390 (2006)).

165. *Warner Bros. Entm't Inc. v. RDR Books*, 575 F. Supp. 2d 513, 542 (S.D.N.Y. 2008) (distinguishing book of trivia concerning *Seinfeld*, which was at issue in *Castle Rock Entm't, Inc. v. Carol Publ'g Grp., Inc.*, 150 F.3d 132, 142 (2d Cir. 1998)).

166. *Id.* at 543.

167. *Id.* at 545.

Amazon.com, Inc., the court of appeals found a search engine incorporating thumbnail images of copyrighted images was highly transformative because it provided considerable social benefit.¹⁶⁸ Likewise, in *Blanch v. Koons*, the court of appeals found that use of a photograph from a fashion magazine in a collage painting was fair use because of the transformative character of the painting, which used the image only as “fodder for his commentary on the social and aesthetic consequences of mass media.”¹⁶⁹

Another court, however, found few new and original creative elements in an accused work called *60 Years*. As described above, in Part II.A.3, the work was about the life of *Catcher in the Rye* character Holden Caulfield (called “Mr. C”) after sixty years had passed. The defendants argued that the seventy-six-year-old Mr. C made much of the same kinds of observations and reflections as sixteen-year-old Holden Caulfield, “but coming from a 76 year old and applied to a world much changed in the 60 intervening years, such observations and reflections fall flat. They reveal a character whose development was arrested at 16, who instead of growing up could only grow old.”¹⁷⁰ The court decided it was not parodic¹⁷¹ merely to explore the same characteristics of the character in a different context, one in which society and the characters had aged.¹⁷² “J.D. Salinger was aware of, and indeed emphasized, the fact that Holden’s uncompromising authenticity was at least partially responsible for his failure to ‘grow up’ and become a fully-functional adult with the capacity for mature relationships.”¹⁷³ Even if *60 Years* and Mr. C were not parodic, they might nevertheless be transformative if they added “something new, with a further purpose or different character, altering the first with new expression, meaning, or message.”¹⁷⁴ The court found, however, that the naïveté, depression, loneliness, absurdity, and inability to

168. *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1165 (9th Cir. 2007).

169. *Blanch v. Koons*, 467 F.3d 244, 253 (2d Cir. 2006).

170. *Salinger v. Colting*, 641 F. Supp. 2d 250, 258 (S.D.N.Y. 2009), *vacated*, 607 F.3d 68 (2d Cir. 2010) (quoting testimony).

171. Further undercutting the parody argument were repeated statements by the author of *60 Years* that it was a tribute or a sequel. *Id.* at 260 n.3. A parody is a paradigmatic example of a transformative work. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 580 (1994). A parody is a “literary or artistic work that imitates the characteristic style of an author or a work for comic effect or ridicule.” *Id.* (internal quotation marks omitted). Blake’s movie is not a parody of the preexisting works, but the analysis of parody typifies the analysis of transformative works more generally.

172. *Salinger*, 641 F. Supp. 2d at 259.

173. *Id.*

174. *Id.* at 261 (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994)) (internal quotation marks omitted).

grow and mature depicted in *60 Years* were not new; they were “abundant, and perhaps even central to the narrative of *Catcher . . .*.”¹⁷⁵ Merely moving time forward by sixty years did not make the work transformative.¹⁷⁶

Similarly, in *Bouchat v. Baltimore Ravens Ltd. Partnership*, the court of appeals found that one use of a copyrighted logo by a football team was not transformative, but another was.¹⁷⁷ The defendant distributed films that compiled highlights of previous games.¹⁷⁸ The films included the Baltimore Raven’s Flying B logo, which was strikingly similar to a design submitted to the team by the plaintiff.¹⁷⁹ The court held that filming the games in which the logo appeared added nothing new to the logo, and therefore was not transformative.¹⁸⁰ The purpose of the logo was to identify the team; it was used for the same purpose in the allegedly infringing films.¹⁸¹ The court of appeals reversed the district court’s finding of fair use of the logo in the films.¹⁸² Conversely, it found that use of the logo on the wall of the lobby of the team’s headquarters qualified as fair use because it was transformative and had no plausible adverse effect on the market for the original.¹⁸³

Blake has a strong position with respect to the transformative character of his movie; it is a new creative product because it uses the copyrighted songs only to communicate the fact of their popularity and to further develop the story’s characters. “Happy Birthday” might be an exception, because it is so firmly embedded in the culture, as explained in Part IV.A.3.b. Blake’s movie, on the other hand, is commercial rather than merely educational, which weakens his position with regard to the first factor.

b. Nature of the Copyrighted Work: Part of the Culture

The second factor, nature of the copyrighted work,¹⁸⁴ provides room to take into account the special position of iconic works such as “Happy Birthday.” Such an approach would move away from

175. *Id.*

176. *Id.*

177. *Bouchat v. Baltimore Ravens Ltd. P’ship*, 619 F.3d 301, 308-09 (4th Cir. 2010).

178. *Id.* at 306.

179. *Id.*

180. *Id.* at 308-09.

181. *Id.* at 309.

182. *Id.* at 317.

183. *Id.* at 313-316.

184. 17 U.S.C. § 107(2) (2006).

interpreting the second factor as disfavoring fair use for works close to the core of copyright's purpose,¹⁸⁵ and would recognize that new creative effort frequently borrows from the most popular existing works.¹⁸⁶ Popular culture has subsumed "Happy Birthday," and copyright law should not impose liability on people who sing it at a birthday party.¹⁸⁷ Interpretation of copyright protection boundaries consistently struggles to strike the right balance between protecting the economic interests of the creator and leaving available a constantly expanding body of creative elements for exploitation by new creators. The primary purpose of copyright is not to reward the labor of authors, but to encourage others to "build freely upon the ideas and information conveyed by a work."¹⁸⁸ Copyright does not prevent creators from copying elements of a previous author's work that are in the public domain.¹⁸⁹

The performances of some works, such as "Happy Birthday" or the "Star Spangled Banner," are so common that they are part of everyday life. Few ordinary people would expect that either be subject to copyright.¹⁹⁰ While singing either song is not transformative, thus undermining fair use under factor one,¹⁹¹ and they are usually sung in their entirety, undermining fair use under factor three,¹⁹² no person could interpret each new performance as undercutting the market for further performances. No single performance will satisfy the demand.

Judge Hand alluded to the possibility that popularity might broaden the privilege for use of copyrighted works in *Nichols*, saying,

185. See Ben Depoorter, *Fair Trespass*, 111 COLUM. L. REV. 1090, 1118-1119 (2011) (explaining that fair use is less likely under second factor for works close to the core of purpose of copyright, such as unpublished, creative, fictional works).

186. See Arlen W. Langvardt & Tara E. Langvardt, *Caught in the Copyright Rye: Freeing First Amendment Interests from the Constraints of the Traditional View*, 2 HARV. J. SPORTS & ENT. L. 99, 130-131, 148-149 (2011) (arguing that fair use should accommodate the greater likelihood that subsequent creative works will borrow from iconic works).

187. A group sing of "Happy Birthday" is a public performance, over which 17 U.S.C. § 106(4) grants the copyright owner an exclusive right to control. *Id.* In any event, the second factor is of relatively limited importance in the decided cases. See Lital Helman & Gideon Parchomovsky, *The Best Available Technology Standard*, 111 COLUM. L. REV. 1194, 1231 & nn.197-198 (2011).

188. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 350 (1991).

189. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 548 (1985) ("[C]opyright does not prevent subsequent users from copying from a prior author's work . . . materials in the public domain—as long as such use does not unfairly appropriate the author's original contributions.").

190. The "Star Spangled Banner" is not subject to copyright. Even it had qualified for copyright protection when it was written, any copyright has long since expired.

191. See 17 U.S.C. § 107(1) ("[T]he purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes . . .").

192. See *id.* § 107(3).

“If the defendant took so much from the plaintiff, it may well have been because her amazing success seemed to prove that this was a subject of enduring popularity.”¹⁹³ Judge Hand focused on protectability of elements, but the effect of narrowing the elements protected is the same as broadening fair use: Either approach allows more room for subsequent exploitation.

Similarly, a line of cases involving use of copyrighted computer software interfaces reasons that the fair use privilege should allow creators of new software to use as much of preexisting works as is necessary to participate in the marketplace. It is well established that non-copyright owners can use expressions in computer interfaces if the expressions become industry standards, or are the only way to perform a function.¹⁹⁴ Blake can argue, by analogy, that occasional performance of the song “Happy Birthday” is necessary for participation in the activities of daily living.

The point is not that “Happy Birthday” has entered the public domain. That conclusion would depend on intent by the copyright owner to place the work in the public domain or expiration of the copyright. Rather, Blake’s argument focuses on the demand for the copyrighted work, asserting that when popularity crosses a high threshold, the fair use doctrine should permit wider use of the copyrighted work as part of the public discourse.

The caselaw provides little direct support for the argument developed in this subsection. When a preexisting work has become embedded in the culture, however, that fact should weigh in favor of its broader exploitation by new creators under the totality of the malleable fair use analysis.

c. Amount of Copyrighted Work Taken

The third factor, amount of copyrighted work taken, considers how much of the original work was used and how much was necessary given the purposes of the newer work.¹⁹⁵ For example, the *Colting* court found that *60 Years* copied far more from the original work than was necessary for parody or criticism: The newer work took much of the original character’s thoughts, memories, and personality traits,¹⁹⁶

193. *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 122 (2d Cir. 1930).

194. *See Tora Soft Ltd. v. Drosnin*, 136 F. Supp. 2d 276, 290 (S.D.N.Y. 2001) (denying protection for Bible code formats because they can be displayed only in a limited number of ways); *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 982 F.2d 693, 705 (2d Cir. 1992) (“[E]lements of a computer program that are necessarily incidental to its function are . . . unprotectable.”).

195. *See* 17 U.S.C. § 107(3).

196. *See Salinger v. Colting*, 641 F. Supp. 2d 250, 263-64 (S.D.N.Y. 2009).

and the supporting characters, setting, tone, and plot devices “largely mirror[ed]” that of *Catcher in the Rye*.¹⁹⁷ Therefore, the third factor¹⁹⁸ weighed against fair use. Likewise, the *RDR Books* court found that the amount and substantiality of use weighed against fair use because the Lexicon employed considerably more verbatim copying or direct paraphrasing than was necessary to provide mere references.¹⁹⁹

In this way, Blake’s position on factor three depends on how much of the preexisting works he uses. If he uses only the basic character concepts from the novel and play, but provides different details, then his position is stronger than if he replicates them in their entirety. The same is true if he uses distinctive plot points. As to the musical works, he will be better off under factor three if he uses only portions of songs rather than reproducing the complete songs.

d. Market-impact Element Provides Useful Flexibility

The fourth factor considers the impact the newer work will have on the market for the original work.²⁰⁰ This factor weighed against fair use in *Colting* because *60 Years* was the kind of work that the author of the original would be likely to create or license others to create as a derivative work.²⁰¹ “[T]he licensing of derivatives is an important economic incentive to the creation of originals.”²⁰²

On the other hand, in *RDR Books* the court found “no plausible basis to conclude that publication of the Lexicon would impair sales of the *Harry Potter* novels.”²⁰³ A closer question was presented by Rowling’s announced intention to produce her own reference guide, but the court found that “the market for reference guides to the *Harry Potter* works is not exclusively hers . . . no matter the commercial success attributable to the popularity of the original works. The market for reference guides does not become derivative simply because the copyright holder seeks to produce or license one.”²⁰⁴ Then, the court held that the Lexicon would impair the market for derivative works for songs and poems in the *Harry Potter* novels even though

197. *Id.*

198. 17 U.S.C. § 107(3).

199. *See Warner Bros. Entm’t Inc. v. RDR Books*, 575 F. Supp. 2d 513, 548-49 (S.D.N.Y. 2008).

200. 17 U.S.C. § 107(4).

201. *Salinger*, 641 F. Supp. 2d at 267; *Micro Star v. FormGen Inc.*, 154 F.3d 1107, 1112 (9th Cir. 1998) (“A copyright owner holds the right to create sequels . . .”).

202. *Salinger*, 641 F. Supp. 2d at 267 (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 593 (1994)).

203. *Warner Bros.*, 575 F. Supp. 2d at 550.

204. *Id.* (citation omitted).

there was no supporting testimony regarding Rowling's intention to exploit that market.²⁰⁵

Blake's position under factor four thus depends on the answers to the following question: Does the distribution and exhibition of his movie cannibalize the market for the other works, or does it enhance them, as audiences for his movie seek out the original works included in the movie? Placing the new work in a different market may appropriate the original creator's hope to penetrate new markets, but if the original creator is not active in those new markets, and has taken no concrete steps to enter the new markets, the harm is less direct. The fourth fair use factor provides authority to consider the relationship between the activities of the original creator and the new creator. If the original creator is unlikely to exploit the market the new creator targeted, the fourth factor weighs in favor of fair use.²⁰⁶

It is preposterous to conclude that Blake's use of the song "Happy Birthday" will diminish the market for the song. To reach this absurd result would require a factual conclusion that his use of the song in his movie will make people less likely to sing "Happy Birthday." Likewise, unless he has bodily appropriated²⁰⁷ the characters from the play or the novel in his movie, the likelihood that his movie will diminish the markets that the rights holders might plausibly exploit is small.

Fair use law would treat an outright refusal by the copyright owner to license on any terms as foreswearing use in commerce, signifying that there is no market to adversely affect. In addition, a refusal to license, depending on other facts, could be part of an effort to protect a monopoly position in one market by forestalling new entry into adjacent markets or markets for substitute productions. Monopoly protection reinforces the pro-competition theme of the copyright misuse doctrine, analyzed in the next subsection.

205. *Id.* at 551.

206. *See generally* Matthew Sag, *Copyright and Copy Reliant Technology*, 103 NW. U. L. REV. 1607, 1654 (2009) (noting that the unlikelihood of a derivative market being exploited by an original creator weighs in favor of fair user under fourth factor).

207. The term "bodily appropriation" is often used in the copyright infringement context to refer to the wholesale copying of a preexisting work. *See, e.g.*, *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 28 (2003) (using the term in context of trademark infringement); *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 558 (1985) (using the term in copyright infringement case); *BUC Int'l Corp. v. Int'l Yacht Council Ltd.*, 489 F.3d 1129, 1150 n.44 (11th Cir. 2007) (using the term in copyright case (quoting *MiTek Holdings, Inc. v. Arce Eng'g Co., Inc.*, 89 F.3d 1548, 1558-59 (11th Cir. 1996))).

4. Copyright Misuse

The copyright misuse doctrine might offer Blake some protection from copyright owners who hide or who insist on exorbitant license fees. Copyright misuse is an equitable “unclean-hands defense” to copyright infringement.²⁰⁸ A finding of misuse does not extinguish the copyright; it merely bars relief for infringement in the context of the misuse.²⁰⁹

In *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*, the court of appeals discussed the misuse defense, observing that it is especially appropriate when a rights holder uses its copyright to limit competition, but more broadly to any leveraging of the copyright to “restrain the creative expression of another.”²¹⁰ The court found that restrictions on expression critical of Disney in Disney’s licensing agreements did not rise to the level of misuse.²¹¹ It distinguished *Rosemont Enterprises, Inc. v. Random House, Inc.*,²¹² as applying the misuse defense to deny Howard Hughes’s effort to obtain an injunction against publication of a forthcoming biography.²¹³ Howard Hughes sought to use copyright law solely to block expression; Disney had mixed motives, and the alleged infringer had other channels to communicate its criticism of Disney.²¹⁴

On the other hand, in *Alcatel USA, Inc. v. DGI Technologies, Inc.*, the court found copyright misuse, barring an injunction against infringement. It explained that “[a] reasonable juror could conclude, based on the licensing agreement, that DSC has used its copyrights [in operating system software] to indirectly gain commercial control over products DSC does not have copyrighted, namely, its microprocessor cards.”²¹⁵

Other cases provide additional examples of copyright misuse as a defense. For example, in *Practice Management Information Corp. v. American Medical Association*, the court of appeals held that the AMA

208. *Altera Corp. v. Clear Logic, Inc.* 424 F.3d 1079, 1090 (9th Cir. 2005) (rejecting independent claim for misuse because no allegation of infringement).

209. *See Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 793 n.81 (5th Cir. 1999) (quoting *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 979 n.22 (4th Cir. 1990)).

210. *Video Pipeline, Inc. v. Buena Vista Home Entm’t, Inc.*, 342 F.3d 191, 205 (3d Cir. 2003).

211. *See id.* at 206 (finding that alternative channels for criticism of Disney existed and that fair use might privilege criticism by licensees regardless of license restrictions).

212. *Rosemont Enters., Inc. v. Random House, Inc.*, 366 F.2d 303 (2d Cir. 1966).

213. *Video Pipeline*, 342 F.3d at 205-06.

214. *See id.*

215. *See Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 793 (5th Cir. 1999) (internal quotation marks omitted).

committed copyright misuse when it conditioned a copyright license on nonuse of competing coding systems.²¹⁶ In *Lasercomb America, Inc. v. Reynolds*, the Fourth Circuit, in one of the earliest cases to accept the misuse defense, held that the defense is available “even if the defendants themselves have not been injured by the misuse.”²¹⁷

Finally, in *Shloss v. Sweeney*, the district court recognized the possibility of misuse in the context of a motion to strike or to dismiss the complaint, explaining:

Plaintiff undertook to write a scholarly work on Lucia Joyce—the type of creativity that the copyright laws exist to facilitate. Defendants’ alleged actions significantly undermined the copyright policy of “promoting invention and creative expression,” as Plaintiff was allegedly intimidated from using (1) non-copyrightable fact works such as medical records and (2) works to which Defendants did not own or control copyrights, such as letters written by third parties. The Court finds that Plaintiff has sufficiently alleged a nexus between Defendants’ actions and the Copyright Act’s public policy of promoting creative expression to support a cause of action for copyright misuse.²¹⁸

As these cases demonstrate, most of the copyright misuse caselaw suggests that misuse occurs only when a rights holder overreaches to extend his statutory monopoly so as to interfere with competition in a market other than the one in which the copyright exists. Blake will argue that rights holders, by refusing to license on fair terms, are using their copyright to restrict competition in a different market—the market for his movie. He will argue that such behavior is misuse because it undermines the goal of the Copyrights and Patents Clause to reward creators while allowing others to build on their efforts.²¹⁹

5. Nuisance

Even though nuisance has no direct role to play in addressing Blake’s copyright clearance problems,²²⁰ certain aspects of nuisance doctrine provide useful analogies. Nuisance law imposes liability on

216. *Practice Mgmt. Adver. Corp. v. Am. Med. Ass’n*, 121 F.3d 516, 520-21 (9th Cir. 1997).

217. *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 979 (4th Cir. 1990).

218. *Shloss v. Sweeney*, 515 F. Supp. 2d 1068, 1080-81 (N.D. Cal. 2007).

219. *See generally* Kathryn Judge, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901, 928-29 (2004) (evaluating proposals that misuse defense should be available to protect against efforts to discourage fair use).

220. Nuisance historically has been applied only to real property—when both the plaintiff and the defendant are asserting interests associated with parcels of real property. *See, e.g.,* *Hendricks v. Stalnaker*, 380 S.E.2d 198, 202-03 (W. Va. 1989) (balancing competing interests of owners of neighboring property, one of whom was unable to install a septic tank because the other had drilled a well too close to the property line). Blake and the rights holders are not asserting interests associated with real property. Movies, songs, plays, and novels are intangible personal property.

one property owner who uses his property so as to withhold support for another piece of property—in the physical sense. Undermining lateral or subjacent support is a nuisance.²²¹ Conceptually, this provides a rough analogy to Blake’s dilemma; the rights holders are refusing to allow Blake to use their property to provide essential support for Blake’s artistic endeavor.

Just as a withdrawal of lateral or subjacent support is enjoined as a nuisance, a refusal to grant a license to Blake would be indirectly enjoined, because Blake depends on the support provided by the preexisting works.

B. Finding Someone to Receive Payment

As the preceding sections explain, the scope of privilege to use preexisting works without paying is limited. It extends to abstracted use of characters and plot points, and might be stretched to include artistically justifiable use of works that are inseparable from popular culture. Under existing law, it does not extend to appropriation of entire songs that are not culturally iconic—the YouTube music videos, and the song by Green Day. For these, Blake will have to pay. His willingness to pay, however, does not solve the problem; he has to find someone to pay, someone who has the power to agree to a license. As the story indicates, this may not be easy. The law mitigates search costs in a variety of ways, usually through some kind of recording system for property interests. These systems serve purposes in addition to reduction of search costs.

1. Traditional Recording Systems

Traditional title recording systems are intended to regularize the establishment of priority when conflicting claims to the same piece of property exist.²²² One who records a transfer gives “record notice” to those who may receive interests in the same property later, thus subordinating the interest of the later-in-time transferee.²²³ The systems have the collateral benefit of reducing search costs for those

221. See, e.g., *Cecola v. Ruley*, 12 S.W.3d 848, 854 (Tex. Ct. App. 2000) (stating general principle in action for partition); *Jones v. Pa. R.R.*, 75 S.E.2d 103, 106 (W. Va. 1953) (recognizing that diversion of stream thereby undercutting subjacent or lateral support for plaintiff’s land constituted a nuisance, but remanding for a new trial of evidence of damages). An example of undermining lateral or subjacent support would be an adjoining property owner excavating her property so as to cause the adjacent property to cave in.

222. See *Lobato v. Taylor*, 70 P.3d 1152, 1172-73 (Colo. 2003) (explaining purpose and functioning of land title registration systems).

223. *Id.*

who want to ascertain who owns a piece of property, for example, in order to obtain an express easement across it. Without title registration, one who wishes to ascertain ownership would have to embark on an impracticable survey of the universe of possible property owners, with little likelihood of useful response.

A similar system is available for recording security interests in personal property under Article 9 of the Uniform Commercial Code (UCC).²²⁴ The holder of a security interest who fails to record loses his secured lien in the personal property vis-à-vis other creditors with a claim to the same property.²²⁵

2. Copyright Recording System

The Copyright Act also provides for a recording system through its registration option. Registration of a copyright is required, however, only as a prerequisite to suing for infringement,²²⁶ and not for establishment of copyright.²²⁷ The functioning of that requirement leaves a potential infringer vulnerable to liability because the registration database may provide no information as to those claiming copyright until infringement has occurred and a suit has been filed.

More concrete legal effects result from failure to register copyright transfers. The Copyright Act contains a Statute of Frauds that makes “transfers of copyright ownership” invalid unless the transfer is made in, or evidenced by, a writing signed by the transferor.²²⁸ The statute also has a race-notice section, which gives priority to subsequent transferees for consideration and without notice as to who recorded first.²²⁹ As with most recording statutes, recording gives constructive notice if it specifically identifies the work to which it pertains so that a reasonable search under the title or registration number of the work would find it²³⁰ and indicate the work was registered.²³¹ Therefore, the transferee of a copyright is vulnerable if

224. See generally U.C.C. § 9 (2011).

225. MD. CODE ANN., COM. LAW § 9-310(a) (West 2011) (filing ordinarily required to perfect security interest); *id.* § 9-315(a) (perfected security interest has priority over interests of transferees).

226. 17 U.S.C. § 411(a) (2006).

227. *Id.* § 408(a).

228. *Id.* § 204(a).

229. *Id.* § 205(d).

230. *Id.* § 205(c).

231. *Id.*; *In re World Auxiliary Power Co.*, 303 F.3d 1120, 1126 (9th Cir. 2002) (explaining that recording a security interest in unregistered copyright would not give constructive notice under § 205 and thus does not preserve creditor's priority). “There just isn't any way for a secured creditor to preserve a priority in an unregistered copyright by recording anything in the

his transferor subsequently transfers the same interest to another person. If the subsequent transferee lacks knowledge of the first transfer and records first, the statute extinguishes the first transferee's interest in favor of the second transferee.²³² This creates a powerful incentive for any transferee to immediately record the transfer and make sure the work is registered. Specifically, the Act says:

A nonexclusive license, whether recorded or not, prevails over a conflicting transfer of copyright ownership if the license is evidenced by a written instrument signed by the owner of the rights licensed or such owner's duly authorized agent, and if—

- (1) the license was taken before execution of the transfer; or
- (2) the license was taken in good faith before recordation of the transfer and without notice of it.²³³

The Act does not distinguish between an assignment of the entire copyright and an exclusive license for only one of the rights.²³⁴ Thus, priority of the assignee of a partial interest depends on recording.

The Copyright Act only provides priority for registered copyrights, although the Act contemplates that most owners will not register their copyrights. The owner of a security interest in an unregistered copyright can give constructive notice and preserve the creditor's priority only by recording under UCC Article 9.²³⁵

These recording systems offer Blake some protection against transferees of rights who have not recorded the transfers. Blake will not be protected, however, against the original copyright owner who does not record until just before he sues Blake.

3. Quiet Title Actions

Quiet title actions are in rem proceedings that clarify rights in property. For example, a Georgia quiet title action statute provides:

Any person . . . who claims an estate of freehold present or future or any estate for years of which at least five years are unexpired . . . may bring a proceeding in rem against all

Copyright Office. And the secured party can't get around this problem by registering the copyright, because the secured party isn't the owner of the copyright, and the Copyright Act states that only "the owner of copyright may obtain registration of the copyright claim." *World Auxiliary*, 303 F.3d at 1126.

232. See *Tuff-N-Rumble Mgmt., Inc. v. Sugarhill Music Publ'g Inc.*, 49 F. Supp. 2d 673, 681 (S.D.N.Y. 1999) (holding that subsequent assignee of copyright rights had priority over earlier assignee because earlier assignee failed to prove either actual notice of the prior transfer or earlier recordation).

233. 17 U.S.C. § 205(e).

234. *Peer Int'l Corp. v. Latin Am. Music Corp.*, 161 F. Supp. 2d 38, 49 (D.P.R. 2001) (resolving priority in favor of prior transferee).

235. *World Auxiliary*, 303 F.3d at 1128, 1131.

the world to establish his title to the land and to determine all adverse claims thereto or to remove any particular cloud or clouds upon his title to the land, . . . which proceeding may be against all persons known or unknown who claim or might claim adversely to him, whether or not the petition discloses any known or possible claimants.²³⁶

The quoted Georgia statute, by its terms, only applies to real property and requires that the plaintiff hold an ownership interest. The California statute, on the other hand, extends the scope of quiet title actions to personal property.²³⁷ Only one with legal title to disputed property may bring an action, however.²³⁸

Assuming Blake lives in a state with a statute like California's, Blake could not maintain a state quiet title action. Even if state actions like this were available to him, Blake does not have legal title to the copyrights. Furthermore, state quiet title actions involving copyright claims are actually not available to him; they are completely preempted by federal law.²³⁹ Nevertheless, federal courts entertain quiet title claims in copyright disputes.²⁴⁰ A court may entertain a suit essentially to quiet title as a copyright injunction action. In *Archie Comic Publications, Inc. v. DeCarlo*, the court characterized an action by the publisher of *Archie* comic books against the estate of an artist as one in which the plaintiff "seeks declaratory and injunctive relief, essentially to quiet its title to these properties against recent claims by DeCarlo's estate."²⁴¹ It held that the plaintiff was entitled to an injunction barring the defendant from suing or threatening to sue the plaintiff or its licensees with respect to the works at issue.²⁴² The Copyright Act also provides for an incomplete form of quiet title action by requiring joinder and allowing the intervention of all persons with a recorded interest in the copyright whenever a suit for infringement is filed.²⁴³

Blake might also be able to obtain injunctive relief, akin to quieting title against multiple rights holders at once. Joinder of competing claimants as defendants under the Federal Rules of Civil

236. GA. CODE ANN. § 23-3-61 (2011).

237. CAL. CIV. PROC. CODE § 760.020(a) (West 2011) ("An action may be brought under this chapter to establish title against adverse claims to real or personal property . . .").

238. *Lewis v. Superior Court*, 37 Cal. Rptr. 2d 63, 74 (Cal. Ct. App. 1994) (holding that the holder of equitable title may not maintain quiet title action against the legal owner).

239. *Pebble Creek Homes, LLC v. Upstream Images, LLC*, 547 F. Supp. 2d 1214, 1217 (D. Utah 2007) (finding removal jurisdiction over quiet title action on complete preemption grounds).

240. See *Archie Comic Publ'ns, Inc. v. DeCarlo*, 258 F. Supp. 2d 315, 335 (S.D.N.Y. 2003) (summarizing relief in quiet title action).

241. *Id.* at 317.

242. *Id.* at 335.

243. 17 U.S.C. § 501(b) (2006).

Procedure would satisfy the requirement that, as to all the defendants, “any right to relief is asserted against them jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences.”²⁴⁴

Nevertheless, quiet title and interpleader actions²⁴⁵ depend on the plaintiff having a preexisting interest in the property in dispute. Absent statutory amendment, it is difficult to identify a right Blake could assert. Any rights Blake has in his derivative work do not extend to the preexisting material, as explained in Part II.A.2. The Copyright Act gives him, at most, a privilege to use the material, not rights in it. On the other hand, if claims of infringement by rights holders in preexisting works have crystallized to the point of cease and desist demand letters or refusals to engage in good faith negotiations over reasonable license terms, the case might be ripe for a declaratory judgment action, which might be maintained as a defendant class action.

C. Determining a Fair Payment

Blake’s transaction costs go beyond those associated with orphan works. They also include the possibility of holdout, explored in Part III.B. Addressing Blake’s problem comprehensively requires some mechanism to set fair royalty rates when the parties cannot agree on their own. Because government price-setting in a market economy is relatively rare, the models offered in this section are only suggestive as to procedures and criteria for a fair price. Only the compulsory license schemes in the present Copyright Act could be directly adapted to address Blake’s problem. As written, however, they are far too narrow in scope to apply to Blake and the rights holders from whom he wants licenses.

This section begins with eminent domain because that doctrine is the oldest and best known legal mechanism for transferring property interests and setting a fair price for the transfer. The Takings Clause, as well as the Supremacy Clause, limits state use of eminent domain.²⁴⁶ State eminent domain has no application in the copyright field because of preemption. There is no reason however,

244. FED. R. CIV. P. 20(a)(2)(A).

245. See discussion *infra* Part IV.D.

246. See U.S. CONST. amend. V (Takings Clause); U.S. CONST. art. VI, cl. 2 (Supremacy Clause).

why Congress could not enact a regulatory scheme functionally equivalent to eminent domain in the copyright field.

1. Eminent Domain

Virtually every state and the federal government exercise the power of eminent domain: taking private property for a public purpose.²⁴⁷ The historical underpinnings of eminent domain run back to the idea that all property emanates from the sovereign.²⁴⁸ What the sovereign gives, the sovereign can take away.

Typically, when a governmental body with eminent domain power decides to condemn property, it commences a legal proceeding.²⁴⁹ The property owner is entitled to a jury determination of the reasonable value of the property, which must be paid to the property owner.²⁵⁰ The court hearing the condemnation action decides if the power to exercise eminent domain exists in the particular case.²⁵¹ Usually, this involves a determination of whether a statutory public use requirement or its Constitutional equivalent has been satisfied.

a. Public Use Requirement

The source of the public use requirement is the Fifth Amendment to the US Constitution.²⁵² By its terms, it applies only to federal condemnation; it applies to the states because it is incorporated into the Fourteenth Amendment.²⁵³ This Article considers private condemnation under the state statutes in Part IV.C.1 below.

In *Cohen v. Larson*, the Supreme Court of Idaho rejected a private condemnation action brought to benefit owners of lakeside

247. See D. Zachary Hudson, *Eminent Domain Due Process*, 119 YALE L.J. 1280, 1293-1301 (2010) (reviewing briefly the history of eminent domain in the United States).

248. A.W.B. Simpson, *Constitutionalizing the Right of Property: The U.S., England and Europe*, 31 U. HAW. L. REV. 1, 4 (2008) (tracing concept back to Grotius and Chancellor Kent).

249. See, e.g., 735 ILL. COMP. STAT. ANN. 30/5-5-5 (LexisNexis 2011) (disallowing eminent domain power unless for public use); *id.* § 10-5-10(a) (explaining that eminent domain action commenced by filing a complaint in the circuit court); *id.* § 10-5-5 (stating that just compensation to be determined by jury).

250. See *supra* note 249.

251. See *supra* note 249.

252. See *Kelo v. City of New London*, 545 U.S. 469, 469 (2005) (applying public use requirement of Fifth Amendment to US Constitution).

253. See *Stop the Beach Renourishment, Inc. v. Fla. Dep't of Env'tl. Prot.*, 130 S. Ct. 2592, 2601 (2010) (applying the Takings Clause to state action).

lots.²⁵⁴ It held that a private condemnation action can succeed only if it involves some public benefit.²⁵⁵ The court also held that some forms of private condemnation, such as condemnation to secure a place for storage of harvested timber, sufficiently benefited the public.²⁵⁶

b. Private Condemnation

Some states authorize private condemnation. Arizona, for example, permits a landlocked private landowner to condemn a “private way of necessity” across lands of another upon a showing of “reasonable necessity.”²⁵⁷ The US Supreme Court has referred to private eminent domain statutes in the western states approvingly, suggesting that they might be a useful replacement for the common law easement-by-necessity doctrine.²⁵⁸ An Arizona case denying condemnation illustrates the controversies likely under such statutes:

A battle such as this involves a clash of values. The Arizona Constitution provides for condemnation of a private way of necessity as a means to prevent bottling up and rendering ineffective a portion of the resources of the state. Yet Defendants’ right to preserve and protect their private property is also constitutional and should not be lightly regarded or swept away.²⁵⁹

Similarly, Washington allows any landowner to condemn a way of necessity upon a showing that it is necessary for the land’s “proper use and enjoyment.”²⁶⁰

Such statutes may be unconstitutional because they do not involve public uses.²⁶¹ Defenders argue that they are no more than codifications of the common law easement-by-necessity doctrine.²⁶² Some have been struck down.²⁶³ Others have been upheld, based on

254. Cohen v. Larson, 867 P.2d 956, 958 (Idaho 1993).

255. *Id.*

256. *Id.* at 959.

257. Siemsen v. Davis, 998 P.2d 1084, 1084 (Ariz. Ct. App. 2000) (citing ARIZ. REV. STAT. § 12-1202 (LexisNexis 2011)).

258. Leo Sheep Co. v. United States, 440 U.S. 668, 680 n.16 (1979) (rejecting the need for easement by necessity in the government).

259. *Siemsen*, 998 P.2d at 1088 (footnote omitted) (citations omitted) (internal quotation marks omitted) (affirming denial of condemnation because plaintiffs did not meet burden of showing reasonable necessity).

260. Ruvalcaba v. Kwang Ho Baek, 247 P.3d 1, 1 (Wash. Ct. App. 2011) (citing WASH. REV. CODE § 8.24.010 (2011)) (holding that a landowner voluntarily landlocking his parcel without reserving an easement is entitled to the benefits of the statute).

261. *See infra* notes 262-265.

262. *In re* Opening Private Road for Benefit of O’Reilly, 5 A.3d 246, 256 (Pa. 2010) (describing argument by appellees).

263. *See* Tolksdorf v. Griffith, 626 N.W.2d 163, 163 (Mich. 2001) (holding Private Roads Act unconstitutional because it served no public purpose).

indirect benefits to the public from freeing up landlocked land.²⁶⁴ In any event, careful scrutiny of the evidence of public benefits is required.²⁶⁵

c. Application to Entertainment and Intellectual Property

Occasionally, owners of intellectual property argue that governmental interference constitutes a Fifth Amendment taking. In *Ruckelshaus v. Monsanto Co.*, the Supreme Court held that compelled disclosure of trade secrets might constitute a taking.²⁶⁶ Nevertheless, the Court rejected the argument that compelling the disclosure of trade secrets to reduce the research and development costs of subsequent applicants for pesticide approval violated the public use requirement.²⁶⁷

On the other hand, in *Zoltek Corp. v. United States*, the Federal Circuit, relying on the Supreme Court's 1894 decision in *Schillinger v. United States*, held that the sole remedy for governmental infringement of a patent is a claim under the Tucker Act, rejecting the district court's acceptance of a takings argument.²⁶⁸

In a broader context, the government has exercised its power to reallocate private property in the entertainment field. It does so, for example, when it uses eminent domain to construct sports facilities.²⁶⁹ Typically, the public use of the proposed facilities, such as stadiums and arenas for professional athletic teams, is more obvious and includes a broader segment of the public benefits than reallocation of property interests in order to allow a private person to make a movie.

A 2007 student note by Ian McClure argues that the exercise of eminent domain over copyrights is entirely plausible.²⁷⁰ The author

264. Cf. *County of Hawaii v. C & J Coupe Family Ltd. P'ship*, 242 P.3d 1136, 1136 (Haw. 2010) (citing *Tolksdorf*, 626 N.W.2d at 163) (finding condemnation of private road by county constitutional).

265. *O'Reilly*, 5 A.3d at 246 (citing *Kelo v. City of New London*, 545 U.S. 469, 469 (2005)); *Tolksdorf*, 626 N.W.2d at 163 (remanding for determination of whether exercise of authority under Private Road Acts was constitutional based on assessment of public benefit).

266. *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1020 (1984) (holding that any taking can be compensated under the Tucker Act).

267. *Id.* at 1014.

268. *Zoltek Corp. v. United States*, 442 F.3d 1345, 1350 (Fed. Cir. 2006). See generally *Schillinger v. United States*, 155 U.S. 163 (1894).

269. See Tyson E. Hubbard, *For the Public's Use? Eminent Domain in Stadium Construction*, 15 SPORTS LAW. J. 173, 173 (2008) (reviewing caselaw on the use of eminent domain power to construct sports facilities).

270. Ian McClure, Comment, *Be Careful What You Wish For: Copyright's Campaign for Property Rights and an Eminent Consequence of Intellectual Monopoly*, 10 CHAP. L. REV. 789, 815-16 (2007).

explains how the public purpose requirement could be met with respect to certain copyrights and patents:

Surely, if breaking up a land oligopoly serves a public purpose, constituting a valid taking of land, so could breaking up a media oligopoly, constituting a “valid” taking of copyrights. . . [A] state might implement legislation calling for compulsory licensing of copyrights for just compensation. In this way, the government will force the transfer of certain rights to the use and sale of a copyrighted product from one private party to another, or many others. The price, just compensation, will be paid by the government. . . . The result will be increased competition, increased output, and decreased prices to the public In the context of eminent domain as applied to copyright, the benefit could be deemed public because of the facilitation of public access to information.²⁷¹

The public use arguments and McClure’s proposal are of little immediate benefit to Blake, unless a state were to exercise its eminent domain power for his benefit, which is quite unlikely. Nevertheless, the arguments in the eminent domain context buttress the credibility of other approaches discussed in the next section to mitigate Blake’s transaction costs.

2. Other Mechanisms for Reducing Holdout Costs: Statutory Compulsory License Mechanisms

The Copyright Act establishes compulsory licenses in a variety of circumstances,²⁷² providing mechanisms for adjudicating fair licensing fees. None of them are currently applicable to Blake’s situation, but they represent models that could extend to him.

The broadest and best-established compulsory license is the “mechanical license” under § 115.²⁷³ The D.C. Circuit summarized the mechanical license in *RIAA v. Librarian of Congress*.²⁷⁴ Under the statute, whenever the owner of a copyright in a nondramatic musical work distributes recordings to the public, any other person is entitled to a compulsory license to make his own recordings and distribute them to the public.²⁷⁵ Persons availing themselves of this statutory privilege must pay the rights holder a royalty,²⁷⁶ either negotiated²⁷⁷

271. *Id.* (footnotes omitted).

272. 17 U.S.C. § 111 (2006) (establishing license for secondary transmissions of broadcast programming by cable networks); *id.* § 112 (establishing license for broadcaster to make one recording); *id.* § 114 (establishing license for digital audio transmission of sound recordings); *id.* § 115 (establishing license for recordings of musical works); *id.* § 116 (establishing license for jukeboxes); *id.* § 118 (2006) (establishing license for public broadcasters); *id.* § 119 (establishing license for secondary transmissions by satellite carriers).

273. *Id.* § 115.

274. *Recording Indus. Ass’n of Am., Inc. v. Librarian of Cong.*, 608 F.3d 861, 863-64 (D.C. Cir. 2010).

275. 17 U.S.C. § 115.

276. *Id.* § 115(e)(2).

or set by an administrative agency called the Copyright Royalty Board, which comprises three Copyright Royalty Judges appointed by the Librarian of Congress.²⁷⁸

Royalties by the Board must be set to achieve the following objectives:

- (A) To maximize the availability of creative works to the public.
- (B) To afford the copyright owner a fair return for his or her creative work and the copyright user a fair income under existing economic conditions.
- (C) To reflect the relative roles of the copyright owner and the copyright user in the product made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost, risk, and contribution to the opening of new markets for creative expression and media for their communication.
- (D) To minimize any disruptive impact on the structure of the industries involved and on generally prevailing industry practices.²⁷⁹

The mechanical license was enacted by the Congress in reaction to the Supreme Court's decision in *White-Smith Music Publishing Co. v. Apollo Co.*, holding that player-piano rolls²⁸⁰ were not copies of musical works, thus allowing the defendant to play plaintiff's songs without a license fee or fear of an infringement suit.²⁸¹ The Court expressed concern that a contrary interpretation of the Copyright Act would make "cylinder(s) of a music box . . . or the record(s) of the graphophone" infringing.²⁸²

After extensive hearings, Congress balanced the demands: those of the music publishers for extending the reproduction right to recorded music, and those of recording device manufacturers for access to published music. The result was the enactment of the

277. *Id.* § 115(c)(3)(E). The statute provides an exemption from the antitrust laws for collective negotiations of royalties. *Id.* § 115(c)(3)(B).

278. *Id.* § 115(c)(3)(D) (binding effect of royalties established by judges); *Recording Indus. Ass'n of Am.*, 608 F.3d at 863-64 (explaining role of Board). The history of royalty-setting mechanisms for compulsory licenses is detailed in the preamble to the procedural regulations for the Board. Procedural Regulations for the Copyright Royalty Board, 70 Fed. Reg. 30901 (May 31, 2005) (codified at 37 C.F.R. chap. III).

279. 17 U.S.C. § 801(b)(1); see *Recording Indus. Ass'n of Am.*, 608 F.3d at 864 (summarizing and characterizing factors).

280. *White-Smith Music Publ'g Co. v. Apollo Co.*, 209 U.S. 1, 10-11 (1908) ("[P]ersons skilled in the art can take such pieces of sheet music in staff notation, and, by means of the proper instruments, make drawings indicating the perforations, which are afterwards outlined and cut upon the rolls in such wise as to reproduce, with the aid of the other mechanism, the music which is recorded in the copyrighted sheets.")

281. *Id.* at 17.

282. *Id.*

mechanical license provisions now codified in 17 U.S.C. § 115.²⁸³ Congress was influenced by claims that extending the reproduction right to sound recordings would enable monopolies because of the incentive for one record provider to obtain rights to a majority of popular songs.²⁸⁴ As a result, it provided that a copyright owner retained the power to license or not license a musical work.²⁸⁵ Once he licensed it, however, all others were entitled to a license on the same terms.²⁸⁶ The music publishers established the Harry Fox Agency to administer mechanical licenses on behalf of copyright owners.²⁸⁷ The statute obligated a copyright owner to notify the Copyright Office as soon as he had licensed a work for mechanical reproduction.²⁸⁸ Then anyone wishing to avail himself of the compulsory license was obligated to file a notice of intent with the copyright owner and with the Copyright Office.²⁸⁹ The Register of Copyrights, testifying in 2005, characterized § 115 this way:

At its inception, the compulsory license facilitated the availability of music to the listening public. However, the evolution of technology and business practices has eroded the effectiveness of this provision. Despite several attempts to amend the compulsory license and the Copyright Office's corresponding regulations (2) in order to keep pace with advancements in the music industry, the use of the § 115 compulsory license has steadily declined to an almost non-existent level. It primarily serves today as merely a ceiling for the royalty rate in privately negotiated licenses.²⁹⁰

In her 2005 testimony, the Register of Copyrights recommended amending § 115 to provide for one-stop shopping for those seeking licenses.²⁹¹ The proposed legislation would have established Music Rights Organizations (MROs) authorized to grant licenses. Each MRO must have the power to authorize reproduction, distribution, and public performance rights, and each rights owner could designate only one MRO.²⁹² This proposed legislation would eliminate the need for any compulsory license in the Copyright Act.

283. See Stephanie Berg, *Remedying the Statutory Damages Remedy for Secondary Copyright Infringement Liability: Balancing Copyright and Innovation in the Digital Age*, 56 J. COPYRIGHT SOC'Y U.S.A. 265, 278 (2009) (describing the legislative history of the 1909 Act).

284. Skyla Mitchell, Note, *Reforming Section 115: Escape From the Byzantine World of Mechanical Licensing*, 24 CARDOZO ARTS & ENT. L.J. 1239, 1242 (2007).

285. *Id.*

286. *Id.*

287. *Id.* at 1243.

288. 17 U.S.C. § 115 (2006).

289. Mitchell, *supra* note 286, at 1242.

290. *Music Licensing Reform: Hearing Before the Subcomm. on Courts, the Internet and Intellectual Prop. of the H. Comm. on the Judiciary*, 109th Cong. 15 (2005) [hereinafter *Music Licensing Reform*] (statement of Marybeth Peters, Register of Copyrights, US Copyright Office).

291. Mitchell, *supra* note 286, at 1263-64 (describing proposals).

292. *Id.* at 1267-69.

The music publishers responded with their own proposed legislation, which emphasized a blanket license to replace song-by-song licensing for digital transmission.²⁹³ The political climate in the Congress was such that it enacted none of the proposals.

Earlier, Congress had enacted § 114,²⁹⁴ which established a compulsory licensing scheme for digital audio transmissions of sound recordings.²⁹⁵ Section 114 affords copyright owners of sound recordings the exclusive right to perform their works publicly by means of digital audio transmissions, subject to “a statutory license that permits certain eligible subscription, nonsubscription, satellite digital audio radio services, and business establishment services to perform those sound recordings publicly by means of digital audio transmissions.”²⁹⁶ It provides an antitrust exemption for collective negotiation of license terms.²⁹⁷ It vests the Copyright Royalty Judges²⁹⁸ with authority to determine reasonable rates for the compulsory licenses in the absence of negotiated agreements.²⁹⁹ This legislation limits the scope of the compulsory license, excluding interactive services.³⁰⁰ The D.C. Circuit, in reviewing a rate set by the Royalty Judges, explained the parameters for their decision making:

When establishing terms and rates under that license, the Copyright Act requires the Board to balance four general and sometimes conflicting policy objectives: (1) maximizing the availability of creative works to the public; (2) providing copyright owners a fair return for their creative works and copyright users a fair income; (3) recognizing the relative roles of the copyright owners and users; and (4) minimizing any disruptive impact on the industries involved.³⁰¹

In *Beethoven.com LLC v. Librarian of Congress*, the court of appeals rejected challenges to an arbitral decision setting compulsory license rates for webcasting.³⁰² In denying intervener status to challengers who had not participated in proceedings before the arbitral body, the court noted that “any person entitled to a statutory

293. *Id.* at 1271.

294. Digital Performance Right in Sound Recordings Act of 1995, Pub. L. No. 104-39, 109 Stat. 336 (codified as amended at 17 U.S.C. §§ 106(6), 114 (2006)).

295. 17 U.S.C. § 114(d)(2).

296. Notice and Recordkeeping for Use of Sound Recordings Under Statutory License, 76 Fed. Reg. 21833, 21833 (proposed Apr. 19, 2011) (to be codified at 37 C.F.R. pts. 370, 382) (footnote omitted) (characterizing § 114).

297. 17 U.S.C. § 114(e)(1).

298. *See* *Intercollegiate Broad. Sys., Inc. v. Copyright Royalty Bd.*, 574 F.3d 748, 753 (D.C. Cir. 2009) (describing statutory authority of Board).

299. 17 U.S.C. § 114(f).

300. *Id.* § 114(d).

301. *Recording Indus. Ass'n of Am., Inc. v. Librarian of Cong.*, 608 F.3d 861, 864 (D.C. Cir. 2010) (paraphrasing 17 U.S.C. § 801(b)(1)(A)-(D)).

302. *Beethoven.com LLC v. Librarian of Cong.*, 394 F.3d 939, 954 (D.C. Cir. 2005).

license may become a party to the . . . rate-setting proceedings by submitting ‘relevant information and proposals.’”³⁰³

In *Intercollegiate Broadcast System, Inc. v. Copyright Royalty Board*, the D.C. Circuit reviewed royalty rates set by the Board for webcasting of sound recordings. It rejected a challenge based on the Board’s alleged failure to consider price labels in a perfectly competitive market.³⁰⁴ It also rejected a challenge based on the Board’s imposition of a per-performance royalty instead of a royalty based on a percentage of revenues.³⁰⁵ On the other hand, it rejected the minimum annual fee per channel set by the Board as arbitrary and capricious.³⁰⁶ These cases show the factors that must guide any governmental decision making about reasonable rates for licenses.

The copyright collective consent decrees, considered in Part IV.D.1, contain mechanisms for determining license rates by the district court that approved the decrees, popularly known as the “rate court.”³⁰⁷ If ASCAP and a putative licensee are unable to agree on a fee within sixty days, the applicant may apply to the district court for a determination of a reasonable fee, with ASCAP having the burden of proving reasonableness.³⁰⁸

In *United States v. ASCAP*, the court of appeals vacated in material part a district court reasonable royalty determination under the consent decree.³⁰⁹ The case arose when negotiations between Internet disseminators of music and video, including Yahoo!, Real Networks, and ASCAP, broke down over the appropriate royalty for Internet distribution of copyrighted music.³¹⁰ The court of appeals found that the district court failed to provide a sufficient rationale to

303. *Id.* at 943.

304. *Intercollegiate Broad. Sys., Inc. v. Copyright Royalty Bd.*, 574 F.3d 748, 757 (D.C. Cir. 2009).

305. *Id.* at 760-61.

306. *Id.* at 762.

307. Section 513 allows small businesses to obtain a judicial determination of the reasonableness of license fees offered by a performing rights society subject to the consent decree. 17 U.S.C. § 513 (2006). A small business is an “individual proprietor who owns or operates fewer than 7 non-publicly traded establishments in which nondramatic musical works are performed publicly.” *Id.*

308. *Broad. Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 10-12 (1979).

309. *United States v. Am. Soc’y of Composers, Authors & Publishers*, 627 F.3d 64, 64 (2d Cir. 2010); *see also In re Application of MobiTV, Inc.*, 712 F. Supp. 2d 206 (S.D.N.Y. 2010) (determination by consent-decree rate court of reasonable fees for compulsory license by ASCAP and others, after a bench trial).

310. *United States v. Am. Soc’y of Composers, Authors & Publishers*, 485 F. Supp. 2d 438, 441 (S.D.N.Y. 2007) (summarizing history of litigation), *aff’d*, 627 F.3d 64 (2d Cir. 2010).

support its formula for streaming uses.³¹¹ In setting a rate for delivery of television programming to smart phones, the court said:

The task at hand is to determine the fair market value of a blanket license for the public performance of music. The challenges of that task include discerning a rate that will give composers an economic incentive to keep enriching our lives with music, that avoids compensating composers for contributions made by others either to the creative work or to the delivery of that work to the public, and that does not create distorting incentives in the marketplace that will improperly affect the choices made by composers, inventors, investors, consumers and other economic players.³¹²

The proposals for reforming §§ 115 and 114 do not go far enough to help Blake; they are limited to sound recordings.³¹³ On the other hand, some of their concepts can be expanded, as the proposed legislative and interpretive proposals at the end of this Article suggest.³¹⁴ Those concepts include not only the statutory manner of granting a compulsory license, but also the factors that Congress must consider in setting terms for it.

3. Flexibility Under Existing Law

Existing law provides some flexibility for shielding Blake from some of the more egregious outcomes. A recent Supreme Court decision says that injunctive relief against copyright infringers is not available automatically, but only after the application of traditional equitable factors.³¹⁵ The damages provisions of the Copyright Act provide some flexibility for molding compensatory damages against Blake so that they resemble what would have been a fair royalty if he had been able to clear rights with an identifiable rights holder who had bargained in good faith.³¹⁶

a. Conditioning Injunctive Relief on Equity

In *eBay, Inc. v. MercExchange, LLC*, the Supreme Court, disagreeing with the Federal Circuit, held that the district court had properly denied a preliminary injunction in a patent infringement case.³¹⁷ It specifically noted that the same equitable principles

311. *Id.* at 10.

312. *MobiTV*, 712 F. Supp. 2d at 209.

313. 17 U.S.C. § 114(a) (2006) (governing sound recordings); *Id.* § 115(a) (governing phonorecords of non-dramatic musical works).

314. *See infra* Part VI.

315. *See infra* Part IV.C.

316. *See infra* Part IV.C.

317. *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 388 (2006).

condition injunctive relief in copyright cases.³¹⁸ Justice Kennedy, joined by Justices Stevens, Souter, and Breyer, concurred, noting the abuse that automatic injunctive relief spawns: “[A]n injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”³¹⁹

The same analysis applies when a copyright holder is not active in a particular market, but simply seeks to block another’s exploitation of that market. In *Salinger v. Colting*, the court of appeals agreed with the district court on the plaintiff’s probability of success, while vacating a preliminary injunction and remanding for consideration of irreparable injury and the public interest.³²⁰ The court of appeals, following *eBay*, considered four equitable factors: probability of success, likelihood of irreparable harm in the absence of an injunction, whether the balance of hardships tilts in the plaintiff’s favor, and the public interest.³²¹ In the balance-of-hardships analysis a court must consider: (1) the harm to the parties’ legal interests, and (2) whether the damages can be remedied after a final adjudication, either by damages or a permanent injunction.³²² The court also reiterated *eBay*’s concurrence, noting that constraining injunctive relief through equitable principles enables courts to accommodate “innovation in this rapidly changing technological area.”³²³

These preconditions for injunctive relief form the heart of the proposed interpretive solutions for Blake, developed in Part VI.B, below.

b. Damages Discretion

Section 504 of the Copyright Act authorizes either compensatory damages or statutory damages.³²⁴ Subsection (b) authorizes an award of “actual damages,” and “any profits of the

318. *Id.* at 391-93 (“[A] plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”).

319. *Id.* at 395-97 (Kennedy, J., concurring).

320. *Salinger v. Colting*, 607 F.3d 68, 70 (2d Cir. 2010).

321. *Id.* at 81-83.

322. *Id.* at 81.

323. *Id.* at 82.

324. 17 U.S.C. § 504 (2006)

infringer that are attributable to the infringement.”³²⁵ In computing profits, the copyright owner has the burden of proving gross revenue, while the accused infringer has the burden of proving “deductible expenses and the elements of profit attributable to factors other than the copyrighted work.”³²⁶

The profits element of damages would limit Blake’s damages liability to the net profit attributable to only those parts of his movie that are infringing. In other words, the compensatory damages awardable for use of “Happy Birthday” would be computed based on how much the inclusion of the song increased Blake’s profits.

The statutory damages provision authorizes an award ranging from \$750 to \$30,000 for each infringement, but gives the court discretion to award up to \$150,000 for each instance of willful infringement.³²⁷ When the accused infringer proves that he had no reason to believe that his acts constituted infringement, the court has discretion to reduce statutory damages to \$200.³²⁸ The text does not make it clear whether the reduced amount of \$200 refers to the total award of statutory damages or to the per-infringement amount.³²⁹ Statutory damages are available only for post-registration infringement.³³⁰ This shields Blake from large damage awards with respect to unregistered copyright interests.

This flexibility with respect to damages provides the second major leg of the interpretive approach spelled out in Part VI.B, below. The proviso allowing reduction of statutory damages could benefit Blake only if he has a plausible argument that he thought his use of

325. *Id.* § 504(b); *see also* *On Davis v. Gap, Inc.*, 246 F.3d 152, 161-62 (2d Cir. 2001) (stating that the statute authorizes reasonable royalties as compensation for copyright owner’s loss and defendant’s profits as disincentive to infringe, but not for duplicative recovery when they overlap).

326. 17 U.S.C. § 504(b).

327. *Id.* § 504(c); *see also* *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 355 (1998) (holding 17 U.S.C. § 504 unconstitutional to the extent it did not entitle parties to jury trial of statutory damages criteria and amount).

328. 17 U.S.C. § 504(c)(2).

329. *See id.* (“In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than \$200.”).

330. *Derek Andrew, Inc. v. Poof Apparel Corp.*, 528 F.3d 696, 701 (9th Cir. 2008) (joining other circuits and denying statutory damages because first act of infringement occurred before registration and post-registration infringement was part of continuing infringement); *Mason v. Montgomery Data, Inc.*, 967 F.2d 135, 143-44 (5th Cir. 1992) (affirming denial of statutory damages for acts of infringement occurring before registration of infringed work); *New Name, Inc. v. Walt Disney Co.*, No. CV 07-5034 PA (RZx), 2008 WL 5587487 at *5 (C.D. Cal. July 23, 2008) (denying statutory damages because post-registration infringements were part of conduct beginning before registration; observing need to create incentive to register).

the preexisting works was fair use.³³¹ In order to be eligible for reduced statutory damages, he would need to argue the expansive interpretation of fair use as described in this Article.³³² There is some flexibility, nevertheless, in the damages provisions of the Act to allow a court to mold damages to resemble a fair royalty.

D. Institutionalizing Collective Action

In the context of Blake's dilemma, collective action could be institutionalized in two ways: by facilitating group action by rights owners, or by facilitating group action by persons situated similarly to Blake. Institutionalizing collective action could benefit Blake: (1) it reduces transaction costs otherwise resulting from fragmentation of ownership and dispersion of new creators who want licenses, and (2) it provides a mechanism for managing holdouts. It also can adjust relative bargaining power. Because some rights holders are large institutions such as Hal Leonard, movie studios, and record labels, while potential licensees, like Blake, are often small, bargaining power is skewed in favor of the large institutions. When the smaller entities act collectively, they strengthen their relative bargaining power.

Many models are available for structuring collective action. The most relevant are copyright collectives that are voluntarily organized and copyright collectives designated by the Copyright Act to administer compulsory licenses.³³³ Models outside the copyright context, though, can also provide insight into how collectives define the class of persons they represent, how they can be organized to reconcile the competing interests of their members, and how their decisions can be judicially reviewed.³³⁴ The law provides a structure for collective action in the employer-employee context through bankruptcy creditors' committees, class action lawsuits, and interpleader.³³⁵

Collective action can reduce transaction costs that otherwise would prevent efficient agreements. The law can provide a shelter for collective action by extending immunity from antitrust law, as in the

331. 17 U.S.C. § 504(c)(2) ("infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright . . ."). The only way Blake could meet this requirement is by showing that he reasonably believed that his conduct was privileged by fair use, given his conversations with his lawyer friends.

332. See discussion *infra* Part VI.B.I.

333. See *infra* Part IV.D.1.

334. See *infra* text accompanying notes 356-360.

335. See *infra* note 356.

case of copyright collectives and collective bargaining in the labor-management context.³³⁶ It also can extend collective action to address the holdout problem by making a collective the exclusive representative for a defined class of persons.³³⁷ In effect, exclusive representation results when all the members are bound by a collective decision, as in class action litigation.

A bargaining collective could either serve as the exclusive or the non-exclusive representative of the members of the class that it represents. Examples of both types of statutorily created collectives exist. Trade unions (or other entities) representing employees are designated as exclusive representatives.³³⁸ The consent decree for the traditional copyright collectives mandates that ASCAP and BMI be non-exclusive representatives.³³⁹ Whenever representation by the collective is exclusive, the collective must have some internal mechanism for managing the holdout problem, and judicial review must provide for scrutiny of the legitimacy of the collective's decision to disappoint a would-be holdout.

1. Copyright Collectives

A variety of copyright collectives represent rights holders who grant licenses by monitoring potential infringement in radio play and public performances and in collecting and distributing royalties. In some circumstances a potential licensee may obtain a judicial determination as to whether the licensing fee demanded is reasonable. The features of these collectives could be extended directly to address Blake's fragmentation problem, borrowing appropriately from their definition of membership classes, the scope of their authority, their exclusivity principles, their use of blanket licenses, and provisions for judicial review.

ASCAP was organized in 1914 by composers worried that performances of copyrighted music were so numerous, widespread, and fleeting that it was infeasible for individual rights holders to negotiate licenses and to detect unauthorized uses.³⁴⁰ At the time ASCAP was formed, considerable doubt existed as to the scope of the

336. See *infra* text accompanying notes 346-350.

337. See *infra* text accompanying note 352.

338. See *infra* note 356.

339. See *infra* text accompanying note 364.

340. *Broad. Music, Inc. v Columbia Broad. Sys., Inc.*, 441 U.S. 1, 4-5 (detailing history of ASCAP).

public performance right in copyrighted musical works.³⁴¹ After the Supreme Court settled the issue,³⁴² in a suit brought by one of the founding members of ASCAP, the universe of potential infringements of the public performance right increased dramatically, intensifying the need for some institutional mechanism to manage the transaction costs of copyright enforcement.³⁴³ ASCAP took on that role. BMI, owned by members of the broadcast industry, was organized in 1939 as radio stations and networks grew restless over ASCAP's licensing fees.³⁴⁴ It performs functions similar to those performed by ASCAP.³⁴⁵

In *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, broadcasters sued these copyright collectives claiming that their collective licensing and enforcement activities violated the Sherman Act.³⁴⁶ Earlier antitrust litigation against the two groups had resulted in consent decrees that materially restricted their activities:³⁴⁷

Under the amended decree, which still substantially controls the activities of ASCAP, members may grant ASCAP only nonexclusive rights to license their works for public performance. Members, therefore, retain the rights individually to license public performances, along with the rights to license the use of their compositions for other purposes BMI is in a similar situation. . . . The BMI decree[, however,] does not specify that BMI may only obtain nonexclusive rights from its affiliates or that the District Court may set the fee if the parties are unable to agree.³⁴⁸

The Court described the practical realities of the market for licenses to copyrighted music, involving thousands of copyright owners and millions of compositions. In such market structures, costs would be prohibitive if everyone had to negotiate individual licenses:

341. *John Church Co. v. Hilliard Hotel Co.*, 221 F. 229, 230-31 (2d Cir. 1915) (holding performance by live band not within scope of copyright because no fee was charged), *rev'd*, *Herbert v. Stanley Co.*, 242 U.S. 591 (1917).

342. *See generally* *Herbert v. Stanley Co.*, 242 U.S. 591, 593 (1917) (explaining that "performance of a copyrighted musical composition in a restaurant or hotel without charge for admission" does constitute a "performance for profit within the meaning of the act").

343. *See ASCAP History*, ASCAP, <http://www.ascap.com/about/history/1940s.aspx> (last visited Sept. 29, 2011) (explaining why BMI was established).

344. *Tradition*, BMI, <http://www.bmi.com/about/entry/533105> (last visited Sept. 29, 2011) ("BMI was founded by radio executives to provide competition in the field of performing rights, to assure royalty payments to writers and publishers of music not represented by the existing performing right organization and to provide an alternative source of licensing for all music users."). Both organizations license rights owned by their members under standard terms to persons that perform copyrighted music. *See generally About BMI*, BMI, <http://www.bmi.com/about> (last visited Sept. 29, 2011); *ASCAP Music History*, ASCAP, <http://www.ascap.com/licensing> (last visited Sept. 29, 2011).

345. *Broad. Music, Inc.*, 441 U.S. at 5.

346. *Id.* at 4.

347. *Id.* at 10-11.

348. *Id.* at 11, 12 n.20.

A middleman with a blanket license was an obvious necessity if the thousands of individual negotiations, a virtual impossibility, were to be avoided. Also, individual fees for the use of individual compositions would presuppose an intricate schedule of fees and uses, as well as a difficult and expensive reporting problem for the user and policing task for the copyright owner. Historically, the market for public-performance rights organized itself largely around the single-fee blanket license, which gave unlimited access to the repertory and reliable protection against infringement. When ASCAP's major and user-created competitor, BMI, came on the scene, it also turned to the blanket license.³⁴⁹

Because of its practical necessity and its proven utility, the Court was unwilling to subject collective licensing to per se antitrust illegality, rather subjecting it to "a more discriminating examination under the rule of reason."³⁵⁰ Collective licensing for copyrights has received broader approval by the Court, Congress, and the Copyright Office. The BMI Court noted Congressional reliance on copyright collectives in specific instances.³⁵¹ The Copyright Office designated SoundExchange as the agent to receive statements of account and royalty payments from licensees under the compulsory license for new digital subscription services.³⁵² In her testimony on licensing reform, Marybeth Peters, the Register of Copyrights, advocated use of collectives to allocate and distribute royalties under her recommended reform of the statutory licensing mechanisms for recorded music.³⁵³

In all of the instances in which they are available, copyright collectives reduce transaction costs for the participants. They reduce or eliminate search costs; they eliminate the negotiation costs of dealing with multiple rights holders; and they reduce or eliminate the negotiation and administrative costs for licensees by proving standard terms. The existing copyright collectives are of little use to Blake, however, because the medium he utilizes (audiovisual work) is not covered by the existing schemes and the types of rights he seeks to license (musical works, sound recordings, dramatic works, and literary works) are only partially covered. Nevertheless, the well-developed elements of collective action, in copyright and in other contexts, can be adapted to reduce Blake's transaction costs, either through the

349. *Id.* at 20-21 (internal citations omitted).

350. *Id.* at 24.

351. *Id.* at 15-16 ("Congress created a compulsory blanket license for secondary transmissions by cable television systems and provided [antitrust immunity]. And the newly created compulsory license for the use of copyrighted compositions in jukeboxes is also a blanket license, which is payable to the performing-rights societies such as ASCAP unless an individual copyright holder can prove his entitlement to a share. Moreover, in requiring noncommercial broadcasters to pay for their use of copyrighted music, Congress again provided that 'notwithstanding any provision of the antitrust laws' copyright owners 'may designate common agents to negotiate, agree to, pay, or receive payments.'") (internal citations omitted).

352. 37 C.F.R. § 262.4(b) (2011).

353. *See Music Licensing Reform, supra* note 290.

creation of new copyright collectives to cover use of any kind of work in a movie, or as a model for determination of fair licensing rates.

2. Limitations of Collective Action Models

Any system for collective action must: (1) deal with the possibility that collective action violates the antitrust laws,³⁵⁴ (2) define the class represented and determine whether members can opt out of collective representation,³⁵⁵ (3) provide for selection of the representative,³⁵⁶ (4) specify the “subject matter jurisdiction” (subjects of bargaining) of the process,³⁵⁷ (5) impose duties on the representative

354. Existing copyright collectives enjoy antitrust immunity either under the statute, as for digital audio broadcasts, or pursuant to consent decrees, as for ASCAP and BMI. *See* discussion *supra* Part IV.D. Collective bargaining in the employer-employee context is exempt from the antitrust laws. *See* *Brown v. Pro Football, Inc.*, 518 U.S. 231, 235-37 (1996) (explaining “statutory” and “non-statutory” labor exemptions from antitrust laws).

355. Opt-out operates for ASCAP, but not for the digital audio broadcast regime. In labor management collective bargaining, individual employees lose the power to bargain for the best price for their labor. *See generally* *J.I. Case Co. v. NLRB*, 321 U.S. 332 (1944) (concluding that private contracts are invalid when in conflict with collective bargaining agreement or NLRB’s procedures).

356. The National Labor Relations Board has the authority to define the class of employees to be represented exclusively by a bargaining agent, and administers processes for designating the bargaining agent. 29 U.S.C. § 159 (2006). Collective action in bankruptcy occurs through creditors’ committees, which play a “vibrant and central role” in Chapter 11 reorganization proceedings. Official Comm. of Unsecured Creditors of Cybergene Corp. v. Chinery, 330 F.3d 548, 562 (3d Cir. 2003) (en banc). The US trustee must appoint “a committee of creditors holding unsecured claims and may appoint additional committees of creditors or of equity security holders as the US trustee deems appropriate.” 11 U.S.C. § 1102(a)(1). *Compare In re Dana Corp.*, 344 B.R. 35 (Bankr. S.D.N.Y. 2006) (rejecting motion for additional creditors’ committee), *with In re Park West Circle Realty, LLC*, No. 10-12965 (AJG), 2010 WL 3219531 (Bankr. S.D.N.Y. Aug. 11, 2010) (finding no abuse of discretion but granting motion of largest unsecured creditor to be added to committee). The US trustee is a Justice Department official “whose role is to be a watchdog in bankruptcy proceedings.” *In re South Beach Sec., Inc.*, 606 F.3d 366, 370 (7th Cir. 2010) (citing 28 U.S.C. § 586(a)(3) (2006)). In class action lawsuits under Fed. R. Civ. P. 23, classes must be defined to determine the scope of those represented, and the process must provide a mechanism for managing holdouts, either by allowing them to opt out of the class or to receive a fair judicial hearing on their objections to a class-based outcome. FED. R. CIV. P. 23. Class actions meeting the basic requirements of commonality, typicality, and adequacy of representation are divided into three categories. *Id.* Two of them, under subsections (b)(1) and (b)(2) are “mandatory” in the sense that a class member dissatisfied with the result may petition the court hearing the action and present objections. *See id.* The third, subsection (b)(3), entitles class members to notice of the action and gives them the power to “opt out”—to elect not to be represented as a member of the class. *Id.*

357. The scope of bargaining for copyright collectives is defined either by the voluntary agreement setting up the collective, or by statute. *See* 17 U.S.C. § 114 (d)(3) (limiting duration of exclusive licenses); 17 U.S.C. § 114(e) (granting antitrust immunity for negotiation of royalty rates, license terms and conditions, division of royalties, and designation of collective agents); *Articles of Association of the American Society of Composers, Authors and Publishers*, ASCAP, art. III, § 5 (May 2002), <http://www.ascap.com/members/governingDocuments/pdf/articles.pdf> (requiring members to authorize ASCAP to license, on non-exclusive basis, non-dramatic public

to represent everyone fairly,³⁵⁸ and (6) determine the remedy if collective bargaining cannot produce agreement.³⁵⁹

Federal interpleader provides another specialized mechanism for collective action, when two or more persons claim competing rights in the same piece of property.³⁶⁰ It could help Blake resolve competing claims to the identical right in the same preexisting work,³⁶¹ by forcing competing claimants to negotiate among themselves under the shadow of a judicial adjustment of their competing claims.

performance of members' works). "Mandatory subjects of bargaining" are defined in labor management collective bargaining by the statute. 29 U.S.C. § 157.

358. The ASCAP and BMI consent decrees regulate the duty of the collective to its members. The duty of fair representation, implied under the *Railway Labor Act*, *Merritt v. Int'l Ass'n of Machinists & Aerospace Workers*, 613 F.3d 609, 619 (6th Cir. 2010), the National Labor Relations Act, and *Vaca v. Sipes*, 386 U.S. 171, 177 (1967), requires the union "to serve the interests of all members without hostility or discrimination toward any, to exercise its discretion with complete good faith and honesty, and to avoid arbitrary conduct. This duty applies in all contexts of union activity, including contract negotiation, administration, enforcement, and grievance processing. A breach of the duty of fair representation occurs only when a union's conduct toward a member of the collective bargaining unit is arbitrary, discriminatory, or in bad faith." *Merritt*, 613 F.3d at 619 (citations omitted) (internal quotations marks omitted) (rejecting fair representation challenge under Railway Labor Act for favoring one group in airline merger); see also *Ford Motor Co. v. Huffman*, 345 U.S. 330, 343 (1953) (finding no breach of duty under National Labor Relations Act for singling out veterans for generous seniority). In class action lawsuits, the court adjudicates any objections to the "adequacy of representation." *Arreola v. Godinez*, 546 F.3d 788, 799 (7th Cir. 2008) (reversing certification of class because named representative had insufficient stake in outcome).

359. The labor statutes provide no mechanism for resolving impasses. Ellen Dannin & Clive Gilson, *Getting to Impasse: Negotiations Under the National Labor Relations Act and the Employment Contracts Act*, 11 AM. U. INT'L L. REV. 917, 922 (1996). The remedy is a strike or a lockout, which is expected to impose increasing pressure on the parties to agree. *Id.* at 939.

Bankruptcy presupposes insolvency. That means that if the property of the debtor is liquidated in a Chapter 7 proceeding, the creditors will receive only a portion of their claims under priorities for distribution established by the statute. See 11 U.S.C. § 726. In a Chapter 11 reorganization proceeding, a reorganization plan reduces the value of claims, typically by extending the time for payment, reducing the amount of claims, and adjusting priority of claims. See generally Chapter 11: Reorganization Under the Bankruptcy Code, US COURTS, <http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics/Chapter11.aspx> (last visited Oct. 13, 2011) (providing background information about Chapter 11). Creditors committees allow participation by those whose property interests will be eroded. See generally *id.* Ultimately the bankruptcy court decides the fair "price" for the claims. See generally *id.*

360. Federal Rule of Civil Procedure 22 allows a plaintiff to sue "[p]ersons with claims that may expose a plaintiff to double or multiple liability" by joining them as defendants and requiring them to "interplead." FED. R. CIV. P. 22(a)(1). Interpleader under this rule is permissible even though "(A) the claims of the several claimants, or the titles on which their claims depend, lack a common origin or are adverse and independent rather than identical; or (B) the plaintiff denies liability in whole or in part to any or all of the claimants." FED. R. CIV. P. 22(a)(1)(A)-(B). Interpleader is available to resolve certain copyright disputes. See *Mills Music, Inc. v. Snyder*, 469 U.S. 153 (1985) (deciding respective rights of heirs and publisher in derivative work based on sound recording as to which assignment of renewal rights had been terminated).

361. A defendant may file an interpleader counterclaim. FED. R. CIV. P. 22(a)(2).

If the political will exists to expand mechanisms for collective action to include Blake's licensing problems, ample models exist for addressing these requirements inside and outside the copyright realm.

Copyright collectives and the other models for collective action, however, reflect market conditions quite different from those confronting Blake. The impossibility of thousands of negotiations and the costs of an intricate schedule of fees and terms, referred to by the Supreme Court in *CBS*, justified ASCAP and BMI collectives.³⁶² The solution they vindicated was a blanket license, under which the licensee takes everything in the catalogue for a simple fee.³⁶³

Blake does not want everything in the catalogue of large collectives. His artistic judgment led him to choose only six copyrighted works. The consumers of his movie will not pay to see the movie because they hope for a random assortment of hit tunes; they will come to see it because it tells a story, with occasional music to support the story.

Moreover, the costs of the status quo to the rights holders today are much less than the costs of the status quo to the rights holders in 1914. In 1914, public performances were breaking out in venues all over the place and on radio stations cropping up in every small city. Blake and others like him are unlikely ever to reach large audiences. If they do, they will become prominent targets with enough capital and revenue at stake to make them worth suing individually for infringement.

The economic and political justifications for use of collective licensing of copyrights needed by Blake are weaker than they are for the existing collective schemes. While arguments can be made that transaction costs associated with licensing under the present system impose unacceptable social costs, the challenge of managing these costs efficiently is greater than the challenge of rebalancing power in labor-management relations, of assuring creditor participation in bankruptcy, or of providing for efficient enforcement of copyright against public performances in dance halls and on the radio. Moreover, the public policy justification for intervention is weaker than in the case of bankruptcy or widespread labor conflict, both of which engender considerable public outcry.

Under the relevant consent decree, BMI and ASCAP have only *non-exclusive* authority to license works, and then, only if the rights

362. See discussion *supra* Part IV.D.2.

363. See discussion *supra* Part IV.D.2.

holder opts in.³⁶⁴ A rights holder will opt in only if collective action provides advantages for it in terms of reducing transaction costs. Such advantages are unlikely in Blake's context. Internet distribution of new works such as Blake's movie makes it far easier for rights holders to detect prima facie infringement than it was in the early days of dance hall performances and local radio station broadcasts of musical works. The RIAA's scorched earth pursuit of individuals who download and share unlicensed music and the movie industry's vigilant use of the DMCA takedown authority against YouTube suggest that rights holders may not perceive a need for licensing collectives.³⁶⁵ Thus, unless Congress compels collective licensing, as it did with digital audio recordings, collective licensing is unlikely to result from market forces. On the other hand, as new technologies enable the proliferation of works in which copyright is owned by small entities, and also enable the proliferation of new works built on a foundation of preexisting works, collective action on both sides may become attractive.

V. CRAFTING A SOLUTION FOR COPYRIGHT FRAGMENTATION IN ENTERTAINMENT WORKS: CONCEPTUAL PRINCIPLES

This Part of the Article provides a framework for crafting solutions to the problems identified in earlier parts of the article, offering a conceptual foundation for the specific proposals in Part VII. It synthesizes the most useful features from the models analyzed in Part IV.

Most of the proposals for dealing with the fragmentation and orphan works problems have focused on reducing search costs by creating a more comprehensive database of rights owners. Most of them are insufficient in scope. For example, having identified the fragmentation problem, Professor Cardi proposes a modest solution: consolidating the licensing of musical composition rights and compulsory assignment of composition rights to any entity with the power to license music recording rights.³⁶⁶ More is necessary to fix the problem. A student work proposes the establishment of an online

364. *Broad. Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 29 (1979) (Stevens, J., dissenting).

365. Joseph S. Beckman, *Your Internet Privacy Takes a Hit*, THE INTELLECT LAW GROUP, <http://www.intellectlawgroup.com/articles/internetprivacyhit.html> (last visited Oct. 26, 2011) (discussing RIAA's shutting down Napster and other music downloading services, and also using the DMCA to force Verizon to identify an anonymous user who infringed copyright by downloading over 600 songs in a day).

366. Cardi, *supra* note 56, at 885-86.

clearinghouse with the power to license all desired works and rights for a single price, with recourse to a rate court in the event of impasse.³⁶⁷ The Register of Copyrights similarly proposed a “one-stop shopping” approach in her 2005 testimony on § 115.³⁶⁸

Existing copyright registration databases can be made more complete by creating stronger incentives for rights holders to register their copyrights. One such incentive can be a privilege for subsequent creators to use an unregistered work without facing liability for infringement unless the new creator has notice of the ownership of copyright in preexisting works and enough information to find the rights holder. That essentially is the approach taken in the Register of Copyright’s Orphan Report.³⁶⁹

Moving copyright toward a liability regime instead of a property regime will reduce transaction costs for Blake. Calabresi and Melamed, in their classic “Cathedral” article,³⁷⁰ distinguished between “property regimes” and “liability regimes.”³⁷¹ What distinguishes property from liability regimes is the availability of injunctions.³⁷² An injunction against copyright infringement gives an unreviewable power to the rights holder to decide whether to grant a license, and if so, on what terms. Instead, limiting the rights holder to damages would effectively allow use of the copyrighted work under a “royalty” defined by the measure of damages.

Already, the availability of automatic injunctive relief, once liability is established, has been eroding. Negligence law is one example. Traditionally, “whenever the damage resulting from a nuisance is found not ‘unsubstantial’, viz., \$100 a year, [an] injunction would follow.”³⁷³ The trend, however, is to take into account traditional equitable factors in determining whether a court should enjoin a nuisance.³⁷⁴

The same trend is evident in the intellectual property arena. In *eBay Inc. v. MercExchange, LLC*, analyzed more extensively in Part

367. Brian R. Day, *Collective Management of Music Copyright in the Digital Age: The Online Clearinghouse*, 18 TEX. INTELL. PROP. L.J. 195, 220-21 (2010) (describing details of clearinghouse).

368. See *Music Licensing Reform*, *supra* note 290.

369. See discussion *infra* Part VI.A.1.

370. See Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

371. *Id.*

372. *Id.*

373. See generally *Boomer v. Atl. Cement Co.*, 257 N.E.2d 870, 872 (N.Y. 1970).

374. See Jeff L. Lewin, *Boomer and the American Law of Nuisance: Past, Present, and Future*, 54 ALB. L. REV. 189, 251 (1990) (reviewing evolution of nuisance law, and focusing particularly on Ellickson's proposal to eliminate injunctive relief in most cases).

IV.C.3, the Supreme Court embraced the usual four-factor test for injunctive relief³⁷⁵ in patent and copyright cases³⁷⁶ to avoid use of injunctions as leverage for extorting excessive license fees. This is precisely Blake's situation.

In Blake's case, equitable factors weigh against injunctive relief. Refusal to license on fair terms tilts equity toward Blake on unclean hands grounds. The hardship to Blake will be substantial if he is enjoined. The hardship to the rights holders will be *de minimis* if injunctive relief is denied. The public interest will be disserved if an injunction is granted because the public will be deprived of Blake's creativity.

The result would be that a person in Blake's shoes could go ahead and use the preexisting work, recognizing that he may be sued for infringement. If he is sued and liability results, he would have to pay a fair royalty, measured by the adverse impact of what he has done on the market for the preexisting work. An injunction, however, would not be available if he made reasonable efforts to find and negotiate with the rights holders. If they could not be located, or if they engaged in a holdup, no injunction would be available.

Any regime for mandatory resolution of private negotiation impasses creates the risk that the negotiating parties will not bargain in good faith, believing that they can get a better deal from the impasse resolution institution than from the opposing party. This is a well-understood problem with interest arbitration in the labor management context.³⁷⁷ In order to avoid this problem in the copyright licensing context, the law should provide incentives for both sides to negotiate license terms without resorting to governmental resolution. The legislation proposed in Part VI provides an example of such incentives.

A 2010 student work suggests adapting the concepts of the doctrine of prior appropriation in water rights, which replaced the doctrine of riparian use in the western United States, where water

375. See *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 391 (2006) (“(1) [T]hat it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”).

376. *Id.* at 391 (quoting Federal Circuit on general rule); *Id.* at 392-93 (noting application to copyright cases).

377. See Thomas Kochan et al., *The Long Haul Effects of Interest Arbitration: The Case of New York State's Taylor Law*, 63 *INDUS. & LAB. REL. REV.* 565, 566-67 (2010) (reviewing literature on adverse effects of interest arbitration in both private and public sectors).

was scarce.³⁷⁸ The premise is that “the pool of copyrighted works is all too finite. Within a world of limited and decaying cultural resources, it seems inefficient that US copyright law grants absolute, near-perpetual monopolies to copyright owners who disappear into obscurity with all their exclusive yet unexploited legal rights fastidiously intact.”³⁷⁹ The student proposed a system in which rights holders still would have a monopoly so long as they actively “used” their works.³⁸⁰ “If [they] cease[] to exploit the copyrighted work and disassociate [themselves] to the point that the[ir] work[s are] orphaned by definition, then a beneficial-use analysis suggests that others should be able to move in and use [them].”³⁸¹ He suggested referring to trademark law, which makes continued protection dependent on continued use in commerce.³⁸²

The law can provide an incentive for rights holders to negotiate reasonable terms for licensing their copyright by weakening copyright protection for rights holders who do not provide data to the Copyright Office to enable potential licensees to find them and who do not bargain over license terms in good faith. This could be done statutorily, but it also can be done through interpretation of the fair use privilege, discussed in Part VI.B.1, and in considering the equitable prerequisites for injunctive relief, considered in Part VI.B.2.

None of the enumerated factors in § 107, codifying fair use, provides explicit authority for this consideration, nor does the caselaw applying those factors. On the other hand, the language of § 107 says that the factors are not exclusive.³⁸³ “[The] [f]air use doctrine is an ‘equitable rule of reason’; neither the examples of possible fair uses nor the four statutory factors are to be considered exclusive.”³⁸⁴

The second factor, moreover, is broad enough to consider the social benefit resulting from a new creator who makes an out-of-print work available to the public.³⁸⁵ Logically, this aspect of the doctrine could be extended to a circumstance where a rights holder blocks public availability of a new work by refusing to license it on

378. See Joel Sage, Note, *Revenue Streams and Safe Harbors: How Water Law Suggests a Solution to Copyright’s Orphan Works Problem*, 16 B.U. J. SCI. & TECH. L. 294 (2010).

379. *Id.* at 311-12 (footnotes omitted).

380. *Id.* at 314.

381. *Id.*

382. *Id.* (referring to 15 U.S.C. § 1051(a)(1) (2006) (limiting trademark applications to marks “used in commerce”).

383. 17 U.S.C. § 107 (2006).

384. *Peter Letterese & Assocs., Inc. v. World Inst. of Scientology Enters.*, 533 F.3d 1287, 1308 (11th Cir. 2008) (reversing district court and holding that strength of fair use defense was insufficient for summary judgment for defendant).

385. See *id.* at 1313-14.

reasonable terms. The “clean hands” equitable prerequisite for injunctive relief provides ample room to deprive an unreasonable rights holder of injunctive relief.³⁸⁶

That leaves the problem of incentives for potential licensees. Requiring those seeking licenses to pay a supernormal price, say 120 percent of what an adjudicator finds to be the fair market value, would provide a disincentive for potential licensees to prefer mandatory dispute resolution of license terms. In addition, uncertainty always provides an incentive for negotiated resolution of disputes. If neither party can predict with certainty the “Best Alternative to Negotiated Agreement,” they are more likely to agree with each other.³⁸⁷

VI. A PROPOSAL

Copyright never has been absolute. After all, the Patents and Copyrights Clause of the US Constitution begins with a condition: “To promote the Progress of Science and useful Arts”³⁸⁸ Further, it imposes the condition of “limited Times” on its grant of authority to the Congress to secure “to Authors . . . the exclusive Right to their respective Writings.”³⁸⁹ Congress regularly has limited the exclusive rights of copyright owners by imposing compulsory licensing schemes backed up by governmental determination of the reasonableness of proposed license fees, as discussed in Part IV.C.2. The need to provide space for new creative effort and to assure the existence of competing channels for distributing creative work justifies these licensing regimes.³⁹⁰ Blake can make a similar argument for a compulsory license as a last resort to facilitate rights clearance. He would argue that the same market failures that justified the existing statutory licenses exist in the market for licenses to works to be included in independent movies.

Even though such an argument is plausible to make, independent filmmakers may not get far in trying to advance the

386. Compare *Saxon v. Blann*, 968 F.2d 676, 680 (8th Cir. 1992) (affirming denial of injunction on unclean hands grounds to copyright owner who revised a book to undercut opportunities of licensee to earlier version of book), with *Brother Records, Inc. v. Jardine*, 318 F.3d 900, 910 (9th Cir. 2003) (rejecting argument that unclean hands was established by rights holder’s refusal to license trademark on royalty terms less favorable to licensor than other licenses for same mark).

387. See ROGER FISHER & WILLIAM URY, *GETTING TO YES: NEGOTIATING AGREEMENT WITHOUT GIVING IN* (Penguin Books 1991) (1981) (using the term “Best Alternative to Negotiated Agreement”).

388. U.S. CONST. art. I, § 8, cl. 8.

389. *Id.*

390. See discussion *supra* Part IV.C.2.

argument. The existing compulsory licensing schemes, after all, have been adopted in a political context in which the licensees' interests were well represented and well funded. It is unlikely that the widely dispersed and underfunded community of independent moviemakers could get as much attention from the Congress. Therefore, enactment of a compulsory licensing scheme to deal with Blake's problem is unlikely. Still, a comprehensive legislative solution is not the only possibility. This Part offers proposed statutory changes and interpretive principles for existing law that would reduce Blake's transaction costs while protecting the legitimate interests of rights holders.

A. Statutory Amendments

The Orphan Report recommended statutory language for an amendment to the Copyright Act. That recommendation is limited to the orphan works problem. As this article explains, the market failure experienced by Blake goes beyond the orphan works problem; it also includes refusals to license and insistence on unreasonable license fees in conjunction with holdout behavior or otherwise. This subsection reproduces the recommended statutory language from the Orphan Report, so that a reader may understand concretely how to address part of Blake's problem by concretely circumscribing statutory remedies. Then it offers broader statutory language to address the full range of Blake's problems.

1. Orphan Report Recommendation

The Orphan Report's recommendations provide a good starting point for amendments to the Copyright Act. They do not go far enough however, because they address only search costs associated with orphan works.

The Orphan Report recommended enactment of a new section to the Copyright Act as follows:

SECTION 514: LIMITATIONS ON REMEDIES: ORPHAN WORKS

(a) Notwithstanding sections 502 through 505, where the infringer:

- (1) prior to the commencement of the infringement, performed a good faith, reasonably diligent search to locate the owner of the infringed copyright and the infringer did not locate that owner, and
- (2) throughout the course of the infringement, provided attribution to the author and copyright owner of the work, if possible and as appropriate under the circumstances, the remedies for the infringement shall be limited as set forth in subsection (b).

(b) LIMITATIONS ON REMEDIES

(1) MONETARY RELIEF

(A) no award for monetary damages (including actual damages, statutory damages, costs or attorney's fees) shall be made other than an order requiring the infringer to pay reasonable compensation for the use of the infringed work; *provided*, however, that where the infringement is performed without any purpose of direct or indirect commercial advantage, such as through the sale of copies or phonorecords of the infringed work, and the infringer ceases the infringement expeditiously after receiving notice of the claim for infringement, no award of monetary relief shall be made.

(2) INJUNCTIVE RELIEF

(A) in the case where the infringer has prepared or commenced preparation of a derivative work that recasts, transforms or adapts the infringed work with a significant amount of the infringer's expression, any injunctive or equitable relief granted by the court shall not restrain the infringer's continued preparation and use of the derivative work, provided that the infringer makes payment of reasonable compensation to the copyright owner for such preparation and ongoing use and provides attribution to the author and copyright owner in a manner determined by the court as reasonable under the circumstances; and

(B) in all other cases, the court may impose injunctive relief to prevent or restrain the infringement in its entirety, but the relief shall to the extent practicable account for any harm that the relief would cause the infringer due to the infringer's reliance on this section in making the infringing use.

(C) Nothing in this section shall affect rights, limitations or defenses to copyright infringement, including fair use, under this title.

(D) This section shall not apply to any infringement occurring after the date that is ten years from date of enactment of this Act.³⁹¹

In describing its proposed legislation, the Report applied it to a hypothetical "subsequent creator," which closely approximated the hypothetical in this article:

Some examples include a filmmaker who takes an old screenplay and modifies it to create a new film, a book publisher that takes a manuscript and has another author write a novel based on that manuscript, or a songwriter who uses a poem as the lyrics to a song he composes. In most cases this type of user will be making commercial use of the work, as it hopes to commercialize and exploit the derivative work it is creating.³⁹²

The Report explains that if the user performs a reasonably diligent search, but still cannot locate the owner, it may go ahead with the use.³⁹³ Nevertheless, it still must attribute author and owner within the derivative work if it knows their identities.³⁹⁴ It should also "be prepared to pay reasonable compensation to the owner if she surfaces and makes a claim for infringement, given that in most cases the use

391. ORPHAN REPORT, *supra* note 65, at 127.

392. *Id.* at 124.

393. *Id.* at 94.

394. *Id.* at 110.

will be commercial and not eligible for the elimination of monetary relief for noncommercial uses.”³⁹⁵ The Report suggests a meritorious approach: conditioning remedies for infringement on making it easier for potential licensees to determine rights ownership and providing a safe harbor for those who make a diligent effort to identify rights owners. It does not go far enough, however, in addressing all the problems.

2. More Comprehensive Amendment to the Copyright Act

The following statutory language builds on the recommendation of the Orphan Report to cover the full range of problems confronted by Blake and analyzed in this article. This proposal, drafted entirely by the author, goes beyond the Orphan Report proposal in the following respects: (1) instead of seeking to define a transformative work entitled to new privileges, it privileges new works that incorporate preexisting works as a relatively small part of the new work; (2) it explicitly privileges conduct like Blake’s as fair use, so long as the creator of the new work offers to pay the rights holder(s) a reasonable royalty; (3) it covers creators of new works who identify rights holders but who are unsuccessful in attempting to communicate with them or who make reasonable royalty proposals and are rebuffed; (4) it provides an incentive to negotiate reasonable license fees by authorizing damages of 120 percent of a reasonable royalty that a court determines would result from arms’ length negotiations; (5) it establishes a statutory license for creators of new works when the preexisting work has been licensed to others. The proposal is as follows:

Add the following new subsection to § 107 of Title 17:

Incorporation of copyrighted material into new transformative work.

The creator of a new work who incorporates preexisting copyrighted works as an integral but minor part of his or her new work shall be entitled to a Fair Use Privilege if he or she meets the following conditions:

- (1) Satisfies the requirements of section 112A, and
- (2) Offers to pay the rights holder for the preexisting work a reasonable royalty, determined in the absence of agreement under Subtitle 8.

Add the following after section 112 of Title 17:

Section 112A. Limitations on exclusive rights: Unsuccessful attempts to obtain license

395. *Id.* at 124.

(a) Notwithstanding the provisions of section 106, an infringement of copyright by a person satisfying the requirements of subsection (b) shall subject the infringer to limited relief as provided in sections 501(c) and 504(e).

(b) A person satisfies the requirements of this subsection when:

(1) He engages in conduct exclusively reserved to the owner of a copyright under section 106, and

(2) He has made a good faith effort to identify and to communicate with the owner of the copyright, and

(A) He has been unable to identify the owner of the copyright, or

(B) Has been unsuccessful in attempts to communicate with the owner of the copyright, or

(3) He has communicated with the owner of the copyright and made a good faith offer to obtain a license, and the owner of the copyright unreasonably has refused his offer.

Add the following to § 502 of Title 17:

(c) Notwithstanding subsection (a) no injunctive relief shall be available against a defendant who satisfies the requirements of section 112A.

Add the following to § 504 of Title 17:

(e) Limitation on damages in cases involving section 112A. Defendants satisfying the requirements of section 112A(b)(3) shall be liable only for damages representing 120 percent of the amount of a royalty that would be negotiated between two parties negotiating in good faith in an arms-length transaction.³⁹⁶

Add the following to Title 17:

Section 115A. Compulsory license for material in new works

(a) When a work has been distributed to the public in the United States under the authority of the copyright owner, any other person who has complied with the provisions of section 112A may obtain a compulsory license to make, distribute, and perform a new work created by that person. A person may obtain a compulsory license under this section only if his or her primary purpose for the license is to use the licensed work as an integral but small part of the new work.

(b) Licenses obtained under subsection (a) shall be subject to the terms and conditions provided in 17 U.S.C. § 115 with respect to notice and royalty rates.

If Congress enacted this legislation, Blake would be in the following situation: If he performs a good faith and reasonably diligent search for holders of rights in preexisting works and either cannot identify them or identifies them and they are unresponsive to his efforts to communicate with them, he is entitled to a fair use privilege. If the rights holder surfaces later, Blake is not liable for infringement. This provides an incentive for rights holders to facilitate discovery of their identities and to respond to requests for licenses.

396. The 120 percent royalty is applicable only to a new creator who has succeeded in identifying the rights holder and communicating with her, but who has been unsuccessful in negotiating a reasonable royalty.

If he identifies and succeeds in communicating with a rights holder, but the rights holder refuses Blake's offer of a license fee in the amount of a reasonable royalty, Blake is liable for 120 percent of what a court determines to be a reasonable license fee. This proviso provides an incentive for Blake to offer a license fee that would be accepted by a rights holder.

If a rights holder has licensed a preexisting work to others, Blake is entitled to a license on terms determined by the Copyright Royalty Judges.

B. Interpretative Common Law Approaches

As mentioned above, the likelihood of Congress amending the Copyright Act along these lines is small. Potential licensees such as Blake are simply too weak politically to channel the legislative process in a direction favorable to them. Rights holders dominate the Congressional process. The asymmetry of political influence in favor of rights holders is well known.³⁹⁷

Without amending the Copyright Act, the law still could provide an efficient regime for Blake and other creators of new works who encounter copyright clearance problems. The following subsections suggest principles for interpreting the fair use and copyright misuse doctrines, which, in conjunction with suggested principles for injunctive relief and awarding damages, would produce results not greatly at odds with those under the proposed statutory amendments.

1. Fair Use Principles

When interpreting the fair use privilege under 17 U.S.C. § 107, a court should treat certain infringements as fair use when the alleged infringer is willing to pay a reasonable royalty to copyright owners for: (1) including the copyrighted work in a larger original work with

397. Public choice theory seems to be practically tailor-made for the IP laws. The theory suggests that when interest groups are small, relatively homogenous, and have individually large interests at stake, these small groups will succeed in controlling government decision-makers much more effectively than larger groups that are more diverse and whose individual stakes are much less. Herbert Hovenkamp, *Innovation and the Domain of Competition Policy*, 60 ALA. L. REV. 103, 117 (2008) (arguing for a greater role for antitrust policy in the intellectual property field). "[I]t is hard to identify any recent innovation-related legislation with identifiable winners and losers in which capture has not been a central dynamic." Stuart Minor Benjamin & Arti K. Rai, *Fixing Innovation Policy: A Structural Perspective*, 77 GEO. WASH. L. REV. 1, 41 (2008); see Keith Porcaro, Note, *Private Ordering and Orphan Works: Our Least Worst Hope?*, 2010 DUKE L. & TECH. REV. 15, ¶¶ 1, 50 (2010) (arguing that copyright legislation is certain to be skewed in favor of rights holders).

substantial new creative elements when the copyrighted work constitutes no more than 1 percent of the new work, (2) using characters or plot elements from the copyrighted work as the basis for characters or plot elements in the new work when the plot of the new work is substantially different from the plot of the copyrighted work, and (3) exploiting markets for the new work substantially different from the markets for the copyrighted work that the copyright owner has demonstrated an intent and the capacity to exploit.

The proposed interpretation of the fair use privilege would protect only creators who use preexisting works as elements in a new work that has substantial new creative elements; as discussed above, fair use has been interpreted to disqualify new works that are not transformative. Privileging Blake's use would give a broader privilege to new works in which the use of preexisting works is a small part of the whole. Conversely, an artist who simply remounts a play or reshoots a movie would fare worse than a new work wanting to use a couple of songs or a lead character in a new context.

The copyright misuse defense, discussed in Part IV.A.4 above, would cover a rights holder who arbitrarily declines to license a work for inclusion as an integral, yet minor, part of a transformative new work or who insists on unreasonable terms. Such conduct by a rights holder inhibits fair competition by limiting consumer access to new creative works and by limiting entry by creators of new works into new markets.

2. Equitable Principles for Injunctions

A moviemaker who bodily incorporates substantial amounts of copyrighted material without any attempt to document fair use or to obtain licenses would be subject to an injunction. On the other hand, a moviemaker who documents a plausible fair use privilege, attempts to obtain licenses but cannot find the rights holder despite diligent search, or finds the rights holder and attempts in good faith to negotiate a reasonable license without success, would not be subject to an injunction. At most, liability for damages would be measured by what a reasonable royalty would be. In these limited circumstances, the proposal transforms intellectual property from a "property regime" to a "liability regime."³⁹⁸

398. The classic distinction crystallized by Calabresi and Melamed in their classic "Cathedral" article. See Calabresi & Melamed, *supra* note 370.

3. Discretionary Principles for Damages

When interpreting the statutory entitlement for actual damages under 17 U.S.C. § 504(b), a court should limit actual damages to a fair royalty amount, computed as a percentage of the profits earned by the infringer from the infringing work. That percentage should reflect the market value of the portion of the copyrighted work included in the infringing work, relative to the market value of the infringing work as a whole. Royalties actually negotiated for other copyrighted works included in the infringing work should be given substantial weight in determining “fair royalty.”

When interpreting the statutory entitlement for statutory damages under 17 U.S.C. § 504(c), a court should construe the authority to reduce damages when the infringer made every reasonable effort to identify the copyright owner and to negotiate a fair royalty for a license to the copyrighted work. The court should construe the \$200 minimum to refer to the aggregate statutory damages for inclusion of the copyrighted work in the infringing work, without regard to the number of times the infringer publicly distributed, publicly displayed, publicly performed, or reproduced the infringing work.

VII. CONCLUSION

The purposes of the Copyright and Patents Clause are frustrated because creators of new works wishing to use new technologies to build on prior creative effort confront a legal regime intertwined with older technologies and industry structures. New creators seeking to license preexisting works face daunting transaction costs as they try to identify potential rights holders whose interests are fragmented, even with respect to a single preexisting work. If a new creator succeeds in identifying rights holders, the battle has just begun. Many are unresponsive to requests for licenses; others engage in strategic behavior, demanding license fees that are so large that they discourage creation of the new work.

This Article begins with a story, permitting the problem to be considered in the context of a concrete effort to create a new work. The story involves a movie, but the problems it identifies apply as well to any kind of new work that seeks to incorporate preexisting works. Having set up the problem, this Article explains how the scope of copyright protection, combined with fragmentation of rights under the Copyright Act, inhibit new creative effort. It explains that property law long has confronted the problems that exist in the markets for

intellectual property and has developed a variety of doctrines to mitigate the transaction costs that led to market failure. It then focuses on possible models for solving the problems confronted by new creators, such as the one portrayed in the story, and it synthesizes some conceptual principles for crafting a solution in the context of new entertainment works. It concludes with a proposal, including legislative amendments to the Copyright Act, and principles that could be applied to interpret the existing statute in the absence of Congressional action. The proposed legislation and the principles afford a privilege for a new creator to use preexisting works when he cannot identify the holders of rights in the preexisting work, when he is unsuccessful in communicating with those rights holders, or when he proposes a reasonable royalty and is rebuffed. It provides mechanisms, ranging from adjudication of fair license fees to restrictions on remedies available to rights holders, to encourage new creators and rights holders to work out agreeable terms privately in the market.

The purpose of copyright law is to encourage and reward creative effort. Current conditions frustrate achievement of that goal by making it easy for copyright owners to hide and then ambush creators of new works that build upon existing works. Amendment of the Copyright Act or application of the interpretive principles proposed in this article would further the law's purpose.