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Trademark Law and Agency Costs

Laura R. Bradford°

Abstract

This Article draws on corporate governance scholarship and economic research on problems of agency to argue for a new approach to trademark regulation. Trademark owners are empowered to enforce laws against fraud and deception on behalf of consumers. This arrangement works well in cases of counterfeiting, but leads to abuse with regard to causes of action against non-competing sellers for sponsorship and affiliation confusion. While consumers generally benefit from transparent information about sponsorship and affiliation, trademark owners benefit from obscuring this information in certain contexts. Acknowledgement of the agency conflicts inherent in trademark law mitigates in favor of reduced enforcement authority of trademark owners and procedural safeguards to ensure trademark enforcement actions serve consumer interests.

Trademark Law and Agency Costs

You are watching television. A group of sleek teenage vampires are attempting to solve a local crisis with the help of the Microsoft® Bing® search engine.[1]

You search for Tiffany® jewelry products on eBay and a number of resellers pop-up. Some resellers advertise genuine Tiffany® jewelry, while others claim their jewelry is Tiffany®-like.[2]

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[1] *See, e.g.*, Rebecca Tushnet, *Bada Bing*, REBECCA TUSHNET'S 43(B)LOG (Mar. 26, 2010, 8:20 AM), http://tushnet.blogspot.com/2010/03/bada-bing.html (mentioning Microsoft's product placement deal with Vampire Diaries).

[2] *See* Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 487 (S.D.N.Y. 2008) *aff'd in part, rev'd in part* 600 F.3d 93 (2d Cir. 2010).

You see a number of tweets praising a newly released video game, all under the "hashtag" #gamechanger.[3]

In each example above, one speaker refers by name or image to another product. In each case, a formal marketing alliance between the speaker and the referenced brand may or may not exist. The profusion of advertising of all kinds—online and offline, embedded and obvious—has multiplied the various ways in which buyers may encounter information about commercial producers.[4] Although many of us believe that we do not pay attention to such information, research

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[3] *See* Lesley Fair, *All About the Tout: Takeaway Tips from the FTC's Sony-Deutsch Settlements*, BUREAU OF CONSUMER PROTECTION BUSINESS CENTER BLOG (Dec. 1, 2014), http://www.business.ftc.gov/blog/2014/12/all-about-tout-takeaway-tips-ftcs-sony-deutsch-settlements (last visited Dec. 8, 2014) (describing campaign coordinated by employees of ad agency touting client's new game from their personal twitter accounts using the "hashtag" #gamechanger).

[4] *See, e.g.*, Stephanie Clifford, *The Train Is Coming. And With It, More Ads*, N.Y. TIMES, Oct. 16, 2008, *available at* http://www.nytimes.com/2008/10/17/business/media/17adco.html (discussing the difficulty in attracting consumer attention with so many available marketing channels); Stuart Elliott, *Madison Avenue's World of Tomorrow*, N.Y. TIMES, July 12, 2010, *available at* http://www.nytimes.com/2010/07/12/business/media/12adco.html; Pradnya Joshi, *Approval by a Blogger May Please a Sponsor*, N.Y. TIMES, July 12, 2009, at B1, *available at* http://www.nytimes.com/2009/07/13/technology/internet/13blog.html?_r=1; *New PQ Media Forecast: Word-of-Mouth Marketing Spending To Break $1 Billion in 2007*, BUSINESSWIRE (Nov. 15. 2007), http://www.businesswire.com/news/home/20071115005670/en/PQ-Media-Forecast-Word-of-Mouth-Marketing-Spending-Break#.VEhYBZPF_tU (discussing the increase in non-traditional "word-of-mouth" marketing); Patricia Odell, *Pepsi Uses "Influencers" to Launch a New Product*, PROMO MAG. (June 18, 2009), http://www.commercialalert.org/issues/culture/buzz-marketing/pepsi-uses-influencers-to-launch-a-new-product; Ethan Smith & Sabrina Shankman, *Fellow Graduates, Before We Greet The Future, a Word From My Sponsor*, WALL ST. J., July 28, 2009, at B2; Neda Ulaby, *State-of-the-Art Ads Are Increasingly One-to-One*, NAT'L PUB. RADIO (May 29, 2007), *available at* http://www.npr.org/templates/story/story.php?storyId=10355723. *See generally* THOMAS H. DAVENPORT & JOHN C. BECK, THE ATTENTION ECONOMY: UNDERSTANDING THE NEW CURRENCY OF BUSINESS (2001) (arguing that the ability to capture and hold consumer attention is the key to business success in the new networked economy).

on consumer behavior suggests that these fleeting impressions indeed influence purchasing decisions.[5]

Sponsorship claims influence us in at least two ways. We tend to trust new products more if they are affiliated with companies or people that we know.[6] We also credit claims in organic speech more than those contained in obvious paid promotion.[7]

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[5] Sarah Coates, Laurie T. Butler & Dianne C. Berry, *Implicit Memory: A Prime Example for Brand Consideration and Choice*, 18 APPL. COGNIT. PSYCHOL. 1195, 1196 (2004); Stephen J. S. Holden & Marc Vanhuele, *Know The Name, Forget The Exposure: Brand Familiarity Versus Memory Of Exposure Context*, 16 PSYCHOL. & MARKETING 479, 479–96 (1999); Chris Janiszewski, *Preattentive Mere Exposure Effects*, 20 J. CONSUMER RES. 376 (1993) (concluding that mere exposure to a product results in an increased preference for that product); Prakash Nedungadi, *Recall and Consumer Consideration Sets: Influencing Choice without Altering Brand Evaluations*, 17 J. CONSUMER RES. 263 (1990) (finding that increasing a brand's accessibility in memory via priming can influence the probability of the brand's being chosen even if its evaluations are unchanged); Stewart Shapiro, Deborah Macinnis & Susan Heckler, *The Effects of Incidental Ad Exposure on the Formation of Consideration Sets*, 24 J. CONS. RES. 94 (1997) (arguing that exposure to advertising influences consumers' willingness to include a product in a consideration set even if they do not consciously attend to the communication); Rob Walker, *The Brand-ness of Strangers*, N.Y. TIMES MAG. (Nov. 16, 2008), at 26 (describing a study in which subjects who were subconsciously primed with exposure to a brand showed a marked increase in preference for that brand over subjects who were not primed). *See also* Andrew Hamp, *Is NBA's Brand Integration Becoming Too Much for Fans?*, ADVERTISING AGE (Apr. 21, 2009), http://adage.com/article/madisonvine-news/nba-s-brand-integration-fans/136165/ (describing how many sports fans think that they do not notice sponsor brand integration at sporting events, but that in fact repeated exposure causes the brand to resonate with them).

[6] Holden & Vanhuele, *supra* note 5, at 481.

[7] *E.g.*, Eric Goldman, *Stealth Risks of Regulating Stealth Marketing: A Comment on Ellen Goodman's Stealth Marketing and Editorial Integrity*, 85 TEX. L. REV. 11, 13 (2007); Bernard J. Jansen & Marc Resnick, Examining Searcher Perceptions of and Interactions with Sponsored Results, paper presented at The Workshop on Sponsored Search Auctions at ACM Conf. on Electronic Commerce (EC '05) (June 5, 2005), *available at* http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=D60B6CD8BBF8E2B0EB1A0BB00207C6CF?doi=10.1.1.92.1232&rep=rep1&type=pdf (finding that consumers judged the same search results as less relevant when they were characterized as 'marketing' versus search results that were not so characterized). *See generally* R. Glen Hass, *Effects of Source Characteristics on Cognitive Responses and Persuasion*, *in* COGNITIVE RESPONSES IN PERSUASION (Richard E. Petty et al. eds., 1981); John E. Calfee & Debra J. Ringold, *The 70% Majority: Enduring Consumer Beliefs About Advertising*, 13 J. PUB. POL'Y & MARKETING 228

Both advertisers and consumer advocates complain about consumer confusion over sponsorship. Advertisers, for their part, seem to want it both ways. They object to any unauthorized implied sponsorship connection to their brand,[8] even though some also embed brand promotions in ambiguous settings.[9] Not surprisingly, people express general uncertainty about the use of a brand name to promote a different, non-competitive product.[10] Many of us, if asked, guess that a mark owner must authorize any use of a trademark or trademarked product, no matter the surrounding circumstances.[11] Sellers point to such beliefs to justify restricting the use of their trademarks by unrelated sellers or information providers.[12]

(1994); Shelly Chaiken, *Heuristic Versus Systemic Information Processing and the Use of Source Versus Message Cues in Persuasion*, 39 J. PERSONALITY & SOCIAL PSYCHOL. 752, 753, 763 (1980) (finding that perceptions of a source's expertise affected opinion of a message and hypothesizing that source cues affect opinion change because they influence both attention to a message and predisposition to its content).

[8] *See infra* Part II(A).

[9] *See, e.g.*, Joshi, *supra* note 4, at B1 (discussing paid sponsorship relationships between advertisers and bloggers); *New PQ Media Forecast*, *supra* note 4 (discussing the increase in non-traditional "word-of-mouth" marketing); Odell, *supra* note 4 (discussing the intertwining of casual social events with sponsored marketing); Smith & Shankman, *supra* note 4, at B2 (describing increase in peer marketing efforts on college campuses); Ulaby, *supra* note 4.

[10] Jim Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 907–17, 923–27 (2007) (discussing how ambiguous legal standards and risk-averse licensing practices in many industries have led consumers to conclude that even referential mention of a brand or trademark results from a paid promotional arrangement).

[11] *Id.* at 924 (citing a 1983 study in which 91.2 percent of respondents agreed that "[n]o product can bear the name of an entertainer, cartoon character, or some other famous person unless permission is given for its use by the owner of the name or character").

[12] *See, e.g.*, Complaint at 30–32, 64–66, 73–74, Rosetta Stone Ltd. v. Google Inc., No. 1:09-cv-00736-GBL-JFA (E.D. Va. July 10, 2009); Complaint at 38–40, 62, 92–95, American Airlines Inc. v. Google Inc., No. 4:07-cv-00487 (N.D. Tex. filed Aug. 16, 2007); First Amended Complaint at 36, Tiffany (NJ) Inc. v. eBay Inc., No. 04 Civ. 4607 (NRB), 2004 WL 2237672 (S.D.N.Y. July 14, 2004). *See also* Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 544 (5th Cir. 1998) (sustaining argument that "[f]or a party to suggest to the public, through its use of another's mark or a similar mark, that it has received permission to use the mark on its goods or services

In fact, however, consumer confusion about sponsorship reflects a second, larger problem with the enforcement of trademark law—a problem of agency. The agency problem goes to the heart of trademark law in that, historically, the status quo has delegated much of the work of policing advertising claims to advertisers themselves.[13] This arrangement not only benefits the public because trademark owners have superior information and resources to detect fraud,[14] but it

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suggests approval, and even endorsement, of the party's product or service and is a kind of confusion the Lanham Act prohibits"); Indianapolis Colts, Inc. v. Metropolitan Baltimore Football Club Ltd., 34 F.3d 410, 415–16 (7th Cir. 1994) (finding confusion as to "permission" relevant); Anheuser-Busch, Inc. v. Balducci Publ'n, 28 F.3d 769, 772, 775 (8th Cir. 1994) (finding confusion as to "permission" relevant); Mutual of Omaha v. Novak, 836 F.2d 397, 400–01 (8th Cir. 1987) (giving "substantial weight" to a survey in which "approximately ten percent of all the persons surveyed thought that [the plaintiff] 'goes along' with [the defendant's] product"); University of Ga. Athletic Ass'n v. Laite, 756 F.2d 1535, 1546 (11th Cir. 1985) (finding confusion as to "permission" relevant); Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200, 205 (2d Cir. 1979) (finding that "the public's belief that the mark's owner sponsored or otherwise approved the use of the trademark satisfies the confusion requirement"); James Burrough Ltd. v. Sign of Beefeater, Inc., 540 F.2d 266, 278–79 (7th Cir. 1976) (reversing a directed verdict when a survey showed that fifteen percent of consumers were confused as to the plaintiff's sponsorship); Dream Team Collectibles, Inc. v. NBA Properties, Inc., 958 F. Supp. 1401, 1416 (E.D. Mo. 1997); Grotrian, Helfferich, Schulz, Th. Steinweg Nachf. v. Steinway & Sons, 365 F. Supp. 707, 716 (S.D.N.Y. 1973) (finding "strong evidence" of a likelihood of confusion when 7.7 percent of those surveyed perceived "a business connection" between the parties and 8.5 percent "confused the names").

[13] *See* 15 U.S.C. §§ 1114(1), 1125(a) (2005) (the former stating that anyone who uses a counterfeit or deceptive mark "shall be liable" to the mark's registrant). *See also* Condit v. Star Editorial, Inc., 259 F. Supp. 2d 1046, 1051 (E.D. Cal. 2003) (ruling that only those with "commercial interest" at stake have standing to pursue Lanham Act claims under § 1125(a)).

[14] *See, e.g.*, Dan Shanahan, *The Trademark Right: Consumer Protection or Monopoly*, 72 TRADEMARK REP. 233, 236 (1982) (noting that trademark owners have incentives and resources to sue infringers and generally do an "excellent job in preventing deception"); James Farley, *Advertising As A World Force: An Address to the Advertising Club of New York*, *in* THE COCA COLA BOTTLER 49 (1949), quoted in Beverly W. Pattishall, *Trade-Marks and the Monopoly Phobia*, 50 MICH. L. REV. 967, 984 n. 36 (1951-52) (calling trademarks an implied "contract" between buyers and sellers as to the identity of and responsibility for the good). *See also* Thomas F. Cotter, *Some Observations on the Law and Economics of Intermediaries*, 2006 MICH. ST. L. REV. 67, 80 n. 60 (2006).

also introduces the potential for abuse. Although trademark owners act as agents of the public in enforcing accurate use of trade symbols, their interests are not fully aligned with the consumers they are meant to protect.[15] The problem of sponsorship disclosure is a pressing example. Advertisers have different interests than consumers with respect to the disclosure of marketing affiliation.[16] They also have exclusive standing under trademark law to police affiliation claims on behalf of consumers.[17]

The use of seller self-interest to police the quality of information given to consumers has been in place since at least the medieval guilds of England, and probably long before.[18] These trademark systems serve dual aims. One aim is to enable detection of producers who make defective goods and to reward producers who make goods of consistent quality. Directly related is the aim of ensuring that consumers can accurately identify goods and services that meet their needs. Trademark owners are well situated to police deceptive claims on behalf of consumers because they have the resources and the motivation to watch their competitors carefully.[19]

Such systems work well when merchants concentrate on one type of good, but recently, these merchants have been employed in the United States (U.S.) to police claims of sponsorship or affiliation across diverse product markets.[20] With greater capabilities of

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15 *See infra* Part II. *See also* Cotter, *supra* note 14, at 70–71, 78.

16 *See infra* text accompanying notes 105–129.

17 *See, e.g.*, Condit, 259 F. Supp. 2d at 1051. *See also* 15 U.S.C. §§ 1114(1), 1125(a) (2005).

18 *See, e.g.*, FRANK I. SCHECHTER, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADEMARK 125 (1925); Edward S. Rogers, *Some Historical Matters Concerning Trademarks*, 9 MICH. L. REV. 29 (1910), *reprinted in* 62 TRADEMARK REP. 239.

19 *See* Shanahan, *supra* note 14, at 236.

20 *See* RESTATEMENT (FIRST) OF TORTS § 730 cmt. a (1938); Sidney A. Diamond, *The Historical Development of Trademarks*, 73 TRADEMARK REP. 222, 247 (1983); Mira Wilkins, *The Neglected Intangible Asset: The Influence of the Trade Mark on the Rise of the Modern Corporation*, 34 BUS. HISTORY 66, 82–83 (1992). There is some reason to doubt the common belief that the modern period is the first in which trademark rights could be asserted in many different kinds of goods. Evidence exists that shows merchants employing their marks to signify ownership of many different types of goods. There also exist reports of mark owners licensing use of attractive

production and modern advertising tools, companies now commonly produce and promote different kinds of goods or services under one brand.[21] If an unrelated seller uses that brand, whether on a similar or different product, consumers will tend to believe they are dealing with the original mark owner or her affiliate.[22] To discourage imposters from preying on such beliefs, federal law has slowly expanded over the last century to give trademark owners enforcement rights even in markets in which they had not yet entered.[23] Only now are the resulting tensions for trademark doctrine being explored.

Producer and consumer interests converge with respect to direct fraud. The public interest in allowing Rolls-Royce, for example, to prevent another car company from labeling its vehicles as Rolls-Royce-branded vehicles is clear. However, the public interest in authorizing the car company to prevent a seller of radio equipment from using the name "Rolls-Royce,"[24] or a seller of seat covers from advertising that the covers are "compatible with Rolls-Royce

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marks to others for use in related fields. However, the intensity and prevalence of advertising apart from the presence of any tangible good or service has changed the ways in which trademarks are employed in the post-industrial era.

[21] Wilkins, *supra* note 20, at 68–71, 73.

[22] *See, e.g.*, Edward C. Lukens, *The Application of the Principles of Unfair Competition to Cases of Dissimilar Products*, 75 U. PA. L. REV. 197, 204 (1927) (stating that "[a]s commercial organization becomes more complex, it is becoming more usual for a corporation to manufacture or sell a wide variety of products. Many companies produce articles that have no similarity, nor any relationship beyond the fact that they are so produced. Such a concern frequently applies the same trade-name to all its products in the hope that the good-will of the older products will attach to the newer ones. The public has become so accustomed to the idea of dissimilar articles being produced by the same company that it is hardly surprised at any combination whatever"). *See also* George W. Goble, *Where and What a Trade-Mark Protects*, 22 ILL. L. REV. 379, 388 (1927) (arguing against the requirement that the defendant's goods be of the "same class" as the plaintiff's: "It seems reasonable to suppose that ordinarily identity of trade name or mark in itself would sufficiently relate them to cause mental association as to the manufacture or origin of the goods, dissimilar and unrelated though the goods may otherwise be").

[23] *See infra* Part I.

[24] *E.g.*, Wall v. Rolls-Royce of Am., 4 F.2d 333, 333–34 (3d Cir. 1925).

vehicles,"[25] or a product information clearinghouse from informing customers about potential alternatives to Rolls-Royce vehicles,[26] or a filmmaker from showing a truthful depiction of a Rolls-Royce automobile as part of a narrative[27] is more nuanced. Yet these are all examples of the kinds of claims mounted by trademark owners under the banner of "sponsorship or affiliation" confusion.

Recognition of the agency problems inherent in trademark enforcement can also open new avenues for analysis and resolution, however. For decades, corporate governance scholars have analyzed the problems of agency with regard to management of complex business associations. These insights can be repurposed for use in the more straightforward situation of management of an expressive asset, like a trademark. The key insight is that the asset has both private value to the owner and public value to the community as a means of expression. Strategies that encourage trademark owners to internalize the public value of the mark can lead to more efficient management decisions for the public. Limiting the enforcement authority of trademark owners and providing increased oversight in situations where their interests are inescapably opposed to the public can also ameliorate the agency conflicts inherent in the trademark relationship.

Part I of this Article traces the history of the agency enforcement model in trademark law. Part II outlines how the current lack of clarity about marketing relationships imposes costs on both

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[25] *E.g.*, Automotive Gold, Inc. v. Volkswagen of Am., Inc., 457 F.3d 1062, 1064 (9th Cir. 2006) (finding that use of auto manufacturer's trademark on unrelated automobile accessories was not functional and was likely to cause confusion as to source or affiliation). *See also* Dow Jones & Co. v. Int'l Sec. Exch., 451 F.3d 295, 308 (2d Cir. 2006); Weight Watchers Int'l, Inc. v. Stouffer Corp., 744 F. Supp. 1259, 1262–263 (S.D.N.Y. 1990); Plasticolor Molded Products v. Ford Motor Co., 698 F. Supp. 199, 202 (C.D. Cal. 1988).

[26] *E.g.*, Rescuecom Corp. v. Google, Inc., 562 F.3d 123, 124 (2d Cir. 2009); Prometek Indus., Ltd. v. Equitrac Corp., 300 F.3d 808, 814 (7th Cir. 2002); Complaint at 5, American Airlines, Inc. v. Yahoo! Inc., No. 4:2008-cv-00626 (N.D. Tex. Oct. 17, 2008) (suing Yahoo! for selling competitor advertising linked to American Airlines even though the ads were clearly those of competitor); Complaint at 5–6, Rosetta Stone Ltd. v. Google, Inc., No. 1:09-cv-00736-GBL-JFA (E.D. Va. July 10, 2009).

[27] *E.g.*, Wham-O, Inc. v. Paramount Pictures Corp., 286 F. Supp. 2d 1254, 1258 (N.D. Cal. 2003) (suing over use of SLIP N SLIDE product in film Dickie Roberts).

advertisers and consumers.[28] A wealth of empirical literature suggests that consumers find clear sponsorship and affiliation information useful in making purchasing decisions.[29] "Sponsorship" in this sense means a formal marketing or manufacturing alliance between two non-competing sellers.[30] In complex and fast-changing marketplaces, information about sponsorship is one of the most reliable and least costly indications of product risk and unobservable quality.[31] Uncertainty about commercial relationships undercuts the reliability of this heuristic, and so increases the effort necessary to evaluate new offerings.[32] Uncertainty can also chill investment in new business

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[28] *See* Ellen P. Goodman, *Stealth Marketing and Editorial Integrity*, 85 TEX. L. REV. 83, 87–88 (2006) (discussing the costs that undisclosed advertising imposes on society).

[29] *See infra* text accompanying notes 130–156. *See also* Matthew Creamer, *Disclosure Doesn't Hamper Word of Mouth Marketing*, AD AGE (Jan. 19, 2006), http://adage.com/article/news/disclosure-hamper-word-mouth-marketing/48160/ (reporting results of study that found that consumer response to word-of-mouth marketing was more favorable when sponsorship relationship was disclosed).

[30] *Cf.* Fed. Trade Comm'n, Guides Concerning the Use of Endorsements and Testimonials in Advertising, 74 Fed. Reg. 53124, 53126 (Oct. 15, 2009) (codified at 16 C.F.R. §§ 255–255.5 (2014)) (stating that the fundamental question of whether a relationship exists between the advertiser and the speaker such that the speaker's statement can be considered "sponsored" by the advertiser turns on factors such as the nature and length of the relationship and the presence of some form of compensation for the speaker either in the past or expected in the future).

[31] *See* Bashar S. Gammoh et al., *Consumer Evaluation of Brand Alliance Signals*, 23 PSYCHOL. & MARKETING 465, 466, 469, 480 (2006) (citing studies that find that a well-known, reputable brand ally improves consumers' evaluation of an unknown brand and replicating that finding in certain circumstances in a new study); Bernd Helmig et al., *Co-Branding, the State of the Art*, 60 SBR 359, 371 (2008), *available at* http://www.sbr-online.de/pdfarchive/einzelne_pdf/sbr_2008_oct_359-377.pdf; Akshay R. Rao et. al., *Signaling Unobservable Product Quality Through a Brand Ally*, 36 J. MARKETING RES. 258 (1994) (finding that when evaluating a product that has an important unobservable attribute, consumers' perceptions of quality are enhanced when a brand is allied with a second well-known brand name); Wilkins, *supra* note 20, at 85.

[32] *See, e.g.*, Laura Bradford, *Emotion, Dilution and the Trademark Consumer*, 23 BERK. TECH. L.J. 1227, 1272–273 (2008) (describing negative effects of uncertainty and inconsistency on brand evaluation); Tülin Erdem & Joffre Swait, *Brand Credibility, Brand Consideration, and Choice*, 31 J. CONSUMER RES. 191, 192 (2004) (noting that high levels of cognitive effort may induce a negative affect and decrease the likelihood of a brand being considered and chosen by a consumer).

models that use trademarks to organize information. Third parties such as search engines, review sites, and resellers may shy away from even referential trademark use for fear of lawsuits.[33]

Part II also argues that the problem stems in part from perverse incentives ingrained in federal trademark law. Brand-owners suffer costs from ambiguity about marketing affiliation, but they also benefit substantially in two ways. First, widespread uncertainty provides a basis for greater legal control over brand image and product distribution.[34] Trademark owners frequently leverage claims of sponsorship confusion to maintain control over resale channels, affiliate markets, and even pop-culture references.[35] Second, a lack of certainty about when a given use is organic enhances the effectiveness of non-obvious advertising techniques such as product placement and buzz marketing.[36] Although trademark law exists to provide useful information to consumers at low costs,[37] mark owners have no affirmative obligations to further this goal, and at times may actively undermine it.[38]

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[33] *See, e.g.*, LBF Travel Inc. v. Fareportal, Inc. et al., No. 1:13-cv-09143, 2014 WL 5671853 (S.D.N.Y. Nov. 5, 2014) (representing dueling suits by competitive travel aggregator sites for purchasing keyword advertising based on the other's trademark); Jurin v. Google, Inc., No. 2:09-cv-03065-MCE-CKD, 2012 WL 5011007 (E.D. Cal. Oct. 17, 2012) (awarding summary judgment to Google in suit objecting that the search engine allowed others to reference trademark term in keyword advertising buys). *See also* Rosetta Stone Ltd. v. Google, Inc., 676 F.3d 144 (4th Cir. 2012) (reinstating lawsuit against Google for allowing referential uses of plaintiff's trademarks in non-affiliated advertising). *See generally* Tiffany (NJ) Inc., 576 Supp. 2d at 463 (including an action against auction facilitator for failing to police counterfeit and affiliation claims).

[34] *See infra* text accompanying notes 107–123.

[35] *See infra* text accompanying notes 107–109, 165–178.

[36] *See infra* text accompanying notes 124–129.

[37] Stacey Dogan, *What is Dilution Anyway?*, 105 MICH. L. REV. FIRST IMPRESSIONS 103, 106 (2006) (stating that "[t]rademark law has never aimed to provide exclusive rights in marks, but has focused on preserving informational clarity in the marketplace"). *See also* William Kratzke, *The Normative Economic Analysis of Trademark Law*, 21 MEMPHIS STATE UNIV. L. REV. 199, 216–17 (1991) (suggesting that the law should grant exclusive rights in trademark interests to facilitate transmission of informational and identificatory messages); Glynn Lunney, *Trademark Monopolies*, 48 EMORY L.J. 367, 431–32 (1999).

[38] *See infra* text accompanying notes 124–129, 165–171.

Part III introduces an agency cost framework for examining the misalignment of interests between sellers and consumers with respect to sponsorship claims. Agency problems are common throughout the commercial world.[39] Agency costs exist whenever an entity is entrusted to act for the benefit of another.[40] Assuming both parties are self-regarding, the agent may fail to pursue the best outcomes for the principal because she or he is made better off by another outcome.[41] Where such problems arise in private markets, parties can themselves bargain for provisions that offset the agency costs. Because the agency relationship in trademark law arises out of a legal mandate,[42] trademark law itself can do more to redress the agency problem.

Trademark law's enforcement incentives could be adjusted relatively easily to produce better informational outcomes in consumer product markets. The problem for the public is an undersupply of clear information about sponsorship and affiliation. Sellers do not uniformly make such disclosures because: (a) it is difficult to coordinate actions across markets and product classes; and (b) even if such disclosure were possible, many sellers benefit from consumer uncertainty through increased leverage in related markets. A remedy that linked an *obligation* to provide greater disclosure about marketing relationships to the *benefit* of receiving enhanced protection in related markets would harness seller self-interest and expertise in the service of the public goal of more transparent markets.

Such a framework would force producers to stand by their choices. If they wish for strong protection against sponsorship confusion, then they must make some efforts to provide clarity on the subject. If they prefer more ambiguous marketing strategies, then they must also provide more latitude for non-competitive use by others. This framework also grants discretion for formulating appropriate and non-invasive methods of sponsorship disclosure to the parties with the greatest expertise: the advertisers. Once trademark owners have

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[39] *See* Michael C. Jensen & William H. Meckling, *Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure*, 3 J. FIN. ECON. 305, 308–09 (1976).

[40] *Id.*

[41] *Id.*

[42] *See infra* Part I.

incentives to disclose marketing alliances, they can experiment to discover the least disruptive ways to communicate this information.

A primary benefit of realigning incentives would be the creation of a "virtuous circle" of transparency.[43] Non-traditional advertising can be useful to sponsors, their marketing affiliates, and consumers themselves.[44] The point is not to discourage such advertising, but to avoid its worst effects. Advertisers and their partners have the best private information about ways to disclose paid affiliation. Once given appropriate incentives, many advertisers will find unobtrusive ways to clarify their marketing messages so as to avoid diminishment of valuable rights. As this happens, consumers should have less difficulty distinguishing between sponsorship and organic product references. Less ambiguity should lead to greater leeway for genuinely non-competitive and informative use of marks by others. At the same time, greater insight as to the motives of those who bring branded products to our attention should foster renewed trust and confidence in non-traditional mediums of communication.[45]

Sponsorship confusion is just one example of an agency cost in trademark law and in management of intangible informational works generally. This is an important area to explore because the enforcement problems discussed herein may be generalized across the intellectual property landscape. All three of the major intellectual property regimes suffer from agency problems between entitlement owners and the public for whose benefit the entitlement is granted. Entitlement owners have better information than the public as to the value of their creations and as to the minimal scope of enforcement necessary to realize that value.[46] Intellectual property regimes

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[43] *See Virtuous Circle Definition*, OXFORD DICTIONARIES, http://www.oxforddictionaries.com/definition/english/virtuous-circle (last visited Dec. 8, 2014).

[44] *See* Goldman, *supra* note 7, at 12.

[45] *See, e.g.*, Guides Concerning the Use of Endorsements and Testimonials in Advertising, 74 Fed. Reg. at 53124, 53126 (noting that application of the FTC Endorsement Guidelines to social media should foster increased credibility of the new medium).

[46] *Cf.* Frederich Hayek, *The Use of Knowledge in Society*, 35 AM. ECON. REV. 519, 525 (1945) (arguing that society benefits when decision-making authority is put in the hands of those with the most direct knowledge of the industry and resources at issue).

encourage public disclosure of initial innovations, but do little to leverage the private expertise of owners to ensure management and enforcement of entitlements in accordance with their public purpose. Just as changing incentives in trademark law can force brand owners to employ marketing expertise in service of publicly beneficial disclosure, changing enforcement incentives for copyright and patent owners could result in forcing similar welfare-enhancing management behavior for those assets. Recognizing the roots of sponsorship confusion clarifies the agency problem at the heart of all intellectual property doctrine and leads the way toward a new approach to solutions.

I. Brief History of Trademark Law: How Producers Came to Represent Consumers in Court

Trademark law has always maintained a dual focus on both the interests of merchants and the interests of consumers; although at different times, one or the other of these aims has been ascendant. One reason for the prevalence of trademark legal systems is that they enable use of merchant self-interest to police deceptive conduct that also harms the public. The earliest U.S. trademark rules depended on a property framework to define and enforce a seller's interest in maintaining his reputation against pretenders.[47] In the twentieth century, as industrialization changed the character of markets, the boundaries of this "property" right in trade reputation became increasingly difficult to fix.[48] After decades of debate, the Lanham Act of 1946 all but abandoned property rhetoric as the animating spirit behind trademark doctrine. Instead, the framers of modern trademark doctrine relied principally on implicit agency principles to support the extension of producer trademark rights into markets that the producer had not yet entered.[49] In other words, trademark owners received

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[47] *See* Mark P. McKenna, *The Normative Foundation of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1873 (2007).

[48] *See* Robert Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 567–69 (2006) (discussing changing conceptions of the "property" protected by the trademark right).

[49] *Cf.* Edward S. Rogers, *The Lanham Act and The Social Function of Trademarks*, 14 LAW & CONTEMP. PROBS. 173, 182 (1949) (citing Lanham Act legislative history criticizing the notion of trademarks as "property," and re-conceptualizing them as vehicles to protect the public from deceit and promote fair competition).

wider authority to enforce rights in their marks because they were seen as acting on behalf of, or as "agents" of consumers.

Trademarks are visible on shards of pottery, bricks, and metal from ancient China, Egypt, Greece, and Rome.[50] The earliest known codified trademark regulations, however, extend from medieval times. Medieval English trade and craft guilds required individual members to mark the goods they produced as a way to police quality and protect the reputation of the membership as a whole.[51] Laws in France, Germany, and England from the 1200s punished fraudulent use of another's mark as a crime.[52] These laws certainly aimed to protect local guilds and craftsmen from imitators, but they also sought to protect the buying public. For example, in 1266, the English Parliament enacted a law stating:

> [e]very baker shall have a mark of his own for each sort of bread in order that would-be customers should know what kind of bread they were being offered.[53]

The enforcement of such rules by guilds—through their own procedures, rather than by purchasers or officials through the common law courts—provides an early example of merchant self-regulation that provides informational benefits to consumers.[54] It should be noted, however, that each regulation was specific to its field.[55]

Trademark infringement and unfair competition actions under early English and U.S. common law aimed to prevent unfair diversion of trade from one merchant to another through deceptive "passing off"

[50] Benjamin G. Paster, *Trademarks - Their Early History*, 59 TRADEMARK REP. 551, 553 (1969).

[51] SCHECHTER, *supra* note 18, at 38–39.

[52] *Id*.

[53] Paster, *supra* note 50, at 557.

[54] SCHECHTER, *supra* note 18, at 40, 125 (noting that guilds were useful as local agents for the carrying out of national industrial policy).

[55] *Id*. at 47 (noting that different industries had differing marking requirements imposed by that guild).

of one seller's goods as those of another.[56] This was seen as injury to the property rights the plaintiff had developed in his business. The law did not restrict use of a similar mark in a new field of trade, however; even if some consumers unwittingly assumed a connection between the sellers.[57] In this sense, merchants were viewed as suing on their own behalf and not as vindicating any general public interest in accurate markings.

By the turn of the twentieth century, however, the common law rule requiring direct competition for infringement was becoming increasingly anachronous. Industrialization brought new methods of manufacture that created more durable, mass-produced goods.[58] New means of shipping and communication increased the range in which products could travel.[59] Sellers began to advertise in far-flung markets to build a demand for their offerings.[60] Buyers in distant markets used trademarks and trade names to identify goods and services, and often did not know much else about the seller.[61] Sellers increasingly used the public goodwill attached to a mark to expand use of that mark to other lines of goods and services.[62] Buyers also understood that goods bearing the same mark came from the same source even if they had

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[56] McKenna, *supra* note 47, at 1860–861, 1863. *See* Edward S. Rogers, *Comments on the Modern Law of Unfair Trade*, 3 ILL. L. REV. 551, 552 (1909).

[57] McKenna, *supra* note 47, at 1869–870.

[58] Bone, *supra* note 48, at 577–78.

[59] *Id*. at 576–77.

[60] *Id*.

[61] *See id*. at 578 (stating that "[g]oodwill generated by large corporations, removed at great distance from the ultimate consumer, was a very different thing than the paradigmatic form of goodwill as personal reputation. The new form of goodwill was much more anonymous").

[62] *See* Frank Schechter, *The Rational Basis for Trademark Protection*, 40 HARV. L. REV. 813, 823 (1927) (arguing that "once a mark has come to indicate to the public a constant and uniform source of satisfaction, its owner should be allowed the broadest possible scope for 'the natural expansion of his trade' to other lines or fields of enterprise").

little knowledge about the source itself.[63] As one scholar of the time put it,

> [a] trademark is not merely the symbol of good will but often the most effective agent for the creation of good will, imprinting upon the public mind an anonymous and impersonal guaranty [sic] of satisfaction, creating a desire for further satisfactions. The mark actually *sells* the goods.[64]

As trademarks and names became more important, the common law rule of assigning rights in a mark to the first owner in each product category no longer made sense. A rule of first possession[65] allowed strategic behavior by new entrants.[66] The use of a well-known mark in a new field allowed newcomers to profit from the work of the original owner.[67] It deprived the owner of the fruits of his own efforts and frustrated the expectations of buyers who assumed they were dealing with the original merchant.[68]

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[63] Rudolf Callman, *Trade-Mark Infringement and Unfair Competition*, 14 LAW & CONTEMP. PROBS. 185, 186–87 (1949); Schechter, *supra* note 62, at 814–15.

[64] Schechter, *supra* note 62, at 818 (noting that "[t]he true functions of the trademark are, then, to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public. The fact that through his trademark the manufacturer or importer may 'reach over the shoulder of the retailer' and across the latter's counter straight to the consumer cannot be over-emphasized, for therein lies the key to any effective scheme of trademark protection. To describe a trademark merely as a symbol of good will, without recognizing in it an agency for the actual creation and perpetuation of good will, ignores the most potent aspect of the nature of a trademark and that phase most in need of protection").

[65] For a description of the traditional rule of "first possession" in property, *see* Thomas W. Merrill, *Accession and Original Ownership*, 1 J. LEGAL ANALYSIS 459, 460, 469 (2009).

[66] *See* Schechter, *supra* note 62, at 825 (asserting that 'trademark pirates' in recent years have made use of well-known marks on non-competing goods the most common type of infringement).

[67] *See, e.g.*, SCHECHTER, *supra* note 18, at 170 (summarizing trademark cases involving non-competitive goods in which the courts seemed motivated by a reluctance to permit the defendants to unfairly reap the benefit of the plaintiff's reputation or advertisement).

[68] *See, e.g.*, Robert G. Bone, *Taking the Confusion Out of Likelihood of Confusion: Toward a More Sensible Approach to Trademark Infringement*, 106 NW. U. L. REV.

Accordingly, judges began to shift to a rule of accession. As described by Thomas Merrill, rules of accession assign title to a newly created asset to the owner of the existing property to which the new asset is most closely related.[69] A non-trademark example would be the assignment of ownership of newborn animals to the owner of the animal's mother, or assigning title to new crops to the owner of the field in which they grew. In the trademark context, judges began to assign to existing trademark owners the right to enjoin use of their marks in closely related markets even when the owners had not yet entered such markets. For example, in 1917, the Second Circuit enjoined use of the mark AUNT JEMIMA for syrup, even though it had only previously been used on pancake flour.[70] The court reasoned that

> goods, though different, may be so related as to fall within the mischief which equity should prevent. Syrup and flour are both food products, and food products commonly used together. Obviously the public, or a large part of it, seeing this trade-mark on a syrup, would conclude that it was made by the complainant . . . It will enable [the defendant] to get the benefit of the complainant's reputation and advertisement.[71]

Ten years later, Judge Learned Hand refused to allow a maker of electric light bulbs to use the same name, YALE, as a well-known maker of locks and other hardware products.[72] He stated that "unless the borrower's use is so foreign to the owner's as to insure against any identification of the two, it is unlawful."[73]

1316, 1319 (2012) (describing the gradual development of consumer confusion as the theory of harm in non-competitive goods trademark cases).

69 Merrill, *supra* note 65, at 463.

70 Aunt Jemima Mills Co. v. Rigney and Co., 247 F. 407, 409, 412 (2d Cir. 1917).

71 *Id*. at 409–10.

72 Yale Elec. Corp. v. Robertson, 26 F.2d 972, 974 (2d Cir. 1928).

73 *Id*.

However, this "related goods" doctrine remained controversial throughout the 1920s and 1930s. Legal realists complained that the rule operated to grant a monopoly over useful words in favor of existing entitlement holders.[74] Furthermore, commentators began to worry that sophisticated advertising manipulated consumer preferences with emotion and that expanded trademark protection just rewarded such practices.[75] This anti-monopolist school, steeped in the theories of the legal formalists, argued that no matter the formal justification, the actual result of trademark protection was to allow merchants to monopolize laudatory words and protect irrational brand preferences against beneficial competition.[76]

The debate crystallized around the passage of the federal Lanham Act in 1946. The Lanham Act represented a sweeping overhaul designed to expand trademark rights to reflect changing market conditions.[77] The bill allowed for preemptive national registration of a mark used anywhere in the U.S., and proposed to

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[74] *See, e.g.*, Sunbeam Lighting Co. v. Sunbeam Corp., 183 F.2d 969, 972 (9th Cir. 1950) (limiting related goods doctrine to only "distinctive" "fanciful" terms); Triangle Pub. v. Rohrlich, 167 F. 2d 969, 982 (2d Cir. 1948) (Frank, J., dissenting) *overruled by* Monsanto Chem. Co. v. Perfect Fit Products Mfg., 349 F.2d 389 (2d Cir. 1965) (stating that "[s]ome writers, disturbed by the suggestion that judicially-protected trade-names are monopolies, protest that the judicial protection of trade-names rests on prevention of unfairness between competitors, not on protection of monopoly. But, no matter by what doctrinal path the courts arrive the judicial restraints of defendants do yield plaintiffs' monopolies. To the practical, social consequences of their decisions, the courts ought not shut their eyes. A concept is what it does. If a legal concept produces a monopoly, the concept, pragmatically, is a concept favoring monopoly. Such a concept should be carefully scrutinized when the courts are asked to widen it, as here, by a decision which will become a precedent with 'radiating potencies'").

[75] Ralph S. Brown, *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165, 1170–171 (1948). *See also* E. Wine Corp. v. Winslow-Warren, Ltd., 137 F.2d 955, 956 (2d Cir. 1943) (positing that "[t]he magna carta of competition, Adam Smith's The Wealth of Nations, made it clear that the consumer's interests were to be the dominant aim of the competitive system: 'Consumption,' wrote Adam Smith, 'is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer'"); EDWARD CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION (1933).

[76] E. Wine Corp., 137 F.2d at 957. *See also* Pattishall, *supra* note 14, at 974–75.

[77] Rogers, *supra* note 49, at 182.

codify as federal law the "related goods" doctrine of *Aunt Jemima* and *Yale*. Challenged by the legal realists to defend the expansion of trademark rights on instrumentalist grounds, proponents seem to have largely abandoned the "producer-centric" vision of trademark rights as a form of property in favor of framing trademark as a means for ensuring "information clarity" to consumers.[78]

Supporters of trademark rights argued that by preventing consumer confusion, trademark protection enabled informed consumer choice and ultimately furthered competition.[79] To counter the claims about the monopoly effects of persuasive advertising, they pointed to the referee power that consumers had over the marketplace. They first argued that advertising could not fool consumers for long, if at all. If an advertised product disappointed consumers, widespread advertising would merely hasten consumer punishment of the brand. Second, the use of consumer perception to measure trademark rights was held up as the guarantee that trademarks could not confer undeserved monopolies over useful words.[80] As long as consumers understood a word to be primarily a description, no trademark rights could attach. However, where consumers understood a word to mean the business of one particular producer, then the use of the term as a mark by another would be deceptive and worthy of prohibition.[81] In this way, consumer confusion became not only the yardstick by which producer rights were measured, but also the harm to be avoided in itself.[82]

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[78] Dogan, *supra* note 37, at 105–06.

[79] *See, e.g.*, U.S. v. Timken Roller Bearing Co., 83 F. Supp. 284, 315 (1948) *modified on other grounds*, 341 U.S. 593 (1951). *See also* Harold F. Baker, *The Monopoly Concept of Trade-Marks and Trade Names and the 'Free Ride' Theory of Unfair Competition*, 17 GEO. WASH. L. REV. 112 (1948); McKenna, *supra* note 47, at 1898; S. Chesterfield Oppenheim, *The Public Interest in Legal Protection of Industrial and Intellectual Property*, 40 TRADEMARK REP. 613, 622 (1950); Pattishall, *supra* note 14, at 979; Rogers, *supra* note 49, at 182–83.

[80] Pattishall, *supra* note 14, at 974.

[81] *Id.* at 979.

[82] *Id.* at 984 (calling consumer confusion the "damage" sought to be prevented by trademark rules and comparing trademark infringement to the crime of forgery, which penalizes use of a particular name only where the use deceives readers as to the identity of a writer).

The chief result of the debate was that the common law's extension of rights to related markets was understood primarily as a consumer protection measure. In 1946, Congress passed the Lanham Act, which defined infringement as any use of a mark that caused confusion as to source or origin of goods or services.[83] Once the "related goods" doctrine was enshrined in federal law, courts began more openly to embrace *Aunt Jemima* and *Yale*. Following Congress, however, courts described their aim as protecting consumers from deception rather than securing producer rights in reputation.[84] By the 1960s,[85] courts and commentators had adopted an entirely different vocabulary to describe the purpose of the law. Instead of a cause of action designed to prevent trespass on a producer's natural rights, the action became one designed to prevent consumer confusion, with the injured trade of the seller merely the vehicle for protecting the public.

The extension of trademark rights to adjudicate claims of sponsorship marks a turning point in the common law of trademark. The balance struck by the courts and later Congress through the passage of the federal Lanham Act in 1946 assigned a type of agency role to trademark owners.[86] That is, trademark owners received rights to markets they had not yet exploited, but only insofar as was necessary to prevent consumer confusion. This balance introduced a more explicit agency role for trademark owners than had existed previously. In this way, the extension of trademark law to police affiliation claims illustrates a movement of the common law in the U.S. from a natural rights mercantile system to a more nuanced agency-based intellectual property system.

Since it built upon the common law system of trademark enforcement, the Lanham Act's grant of sole jurisdiction to producers to enforce trademark rights was not especially controversial. To the extent commentators have noted the dichotomy, they have for the most part praised the logic of the scheme.[87] Trademark owners have the

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[83] 15 U.S.C. § 1114(1) (1946).

[84] *See* Bone, *supra* note 68, at 1327–331 (describing the influence of the federal Lanham Act on the emergence of the multi-factor 'likelihood of confusion' test as the litmus of trademark infringement).

[85] 4 McCarthy on Trademarks and Unfair Competition § 24:6 (4th ed.).

[86] For a more in-depth discussion of said agency relationship, *see infra* Part III.

[87] Shanahan, *supra* note 14, at 236.

means and incentives to police against deceptive labeling.[88] Consumers and regulators, on the other hand, are hampered by collective action problems, fragmented authority, and scarce resources.[89] Consumers are unlikely to mount common law fraud actions for small-scale discretionary purchases.[90] Furthermore, unlike federal and common law trademark suits, these actions typically demand proof of additional elements such as reliance, malice, or damages.[91] Such showings are likely to be difficult for individual consumers to make and the likely gains from bringing such suits for each individual plaintiff are miniscule.

Agencies such as the Federal Trade Commission (FTC), the Federal Communication Commission (FCC), and the Food and Drug Administration (FDA) also have some jurisdiction over misleading

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[88] *Id*.

[89] While the Federal Trade Commission (FTC) has jurisdiction to investigate and file suit against persons who engage in deceptive trade practices, it has limited enforcement resources. *See, e.g.*, FTC v. Gill, 265 F.3d 944, 950 (9th Cir. 2001). The Federal Communications Commission (FCC) regulates sponsorship disclosures specific only to television broadcasting. *See* Goodman, *supra* note 28, at 145. The Food and Drug Administration (FDA) has attempted clumsily to regulate drug disclosures in non-traditional media. Stephanie Clifford, *F.D.A. Rules on Drug Ads Sow Confusion as Applied to Web*, N.Y. TIMES, Apr. 16, 2009, at B7. Many states have enacted statutes authorizing public agencies, consumers, or other parties to litigate these types of claims, too. *See, e.g.,* Guy Tel. & Tel. Corp. v. Melbourne Int'l Commc'ns Ltd., 329 F.3d 1241, 1246–247 (11th Cir. 2003) (discussing application of the Florida Deceptive and Unfair Trade Practices Act). The remedies available under state law typically are limited and so are unlikely to motivate consumers or plaintiffs' attorneys to go after all but the most egregious practices. *E.g.*, N.Y. GEN. BUS. LAW §§ 349–50 (McKinney 2014) (limiting private consumer actions against false advertising and deceptive practices to the plaintiff's actual damages or fifty dollars, whichever is greater).

[90] *See, e.g.*, N.Y. GEN. BUS. LAW §§ 349–50 (McKinney 2014).

[91] *See generally* Samuel Issacharoff, *The Vexing Problem of Reliance in Consumer Class Actions*, 74 TUL. L. REV. 1633 (1999-2000) (describing the barriers that the need to demonstrate consumer reliance poses for class certification in class action consumer cases). *See also* Howard Beales et al., *Efficient Regulation of Consumer Information*, 24 J.L. & ECON. 496–501 (1981) (noting the difficulty of defining "deceptive" practices for the purposes of FTC enforcement; in part, due to the difficulty of categorizing information as "material" to the purchaser).

consumer advertising. Their enforcement resources are limited however, and have only decreased in recent decades.[92]

For the most part, the historical oddity of granting sellers an exclusive right to vindicate public deception in markets in which they have not even entered has been ignored. Little attention has been paid to the structural problems inherent in granting competitive sellers the right to enjoin advertising in unrelated markets in the name of reducing "search costs" for consumers.[93] It should surprise no one that merchants at times exploit this power to disadvantage potential rivals even where actual consumer confusion is not likely. Indeed, it would be surprising if trademark owners did not act in the same way.

II. Misaligned Incentives in Trademark Affiliation Cases

In 2002, Disney Studios filed a claim against a California map distributer, World Impressions Inc., for including the Disney castle and distinctive logo beside the location for California's Disneyland theme park.[94] Disney claimed that people who saw the castle would assume that Disney had sponsored, authorized, or was somehow affiliated with the mapmaker.[95] The court agreed and World Impressions was told to redesign the map to omit Disney's distinctive typeface and castle.[96]

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[92] *See, e.g.*, Federal Trade Commission, *Fiscal Year 2015 Congressional Budget Justification*, at 3, *available at* http://www.ftc.gov/system/files/documents/reports/fy-2015-congressional-budget-justification/2015-cbj.pdf (showing decrease in enforcement budget year to year); Juan Carlos Rodriguez, *FTC Says $10M Budget Cut Won't Slow Enforcement*, LAW360 (Apr. 10, 2013) http://www.law360.com/articles/431789/ftc-says-10m-budget-cut-won-t-slow-enforcement (noting reductions in the agency's enforcement budget).

[93] *But see* Laura Bradford, *Search Costs in Trademark Law* (draft in progress, on file with author); Mark P. McKenna, *A Consumer Decision-Making Theory of Trademark Law*, 98 VA. L. REV. 67, 73–92 (2012); Mark P. McKenna, *Trademark Use and the Problem of Source*, 2009 U. ILL. L. REV. 773, 780 (2009); Jeremy N. Sheff, *Marks, Morals and Markets*, 65 STAN. L. REV. 761, 767–68 (2013).

[94] World Impressions, Inc. v. McDonald's Corp., 235 F. Supp. 2d 831, 842 (N.D. Ill. 2002).

[95] *Id*. at 843.

[96] *Id*. at 846.

This case perhaps seems trivial but it is not. It highlights typical but pervasive conflicts between those who wish to use trademarks in a descriptive way and those who seek to control such uses. On the one hand, it is difficult to see much harm in letting the map decorate itself with well-known symbols to enhance its visual appeal. On the other hand, it is not uncommon for makers of guides and maps to receive advertising support from local vendors and to provide enhanced promotion to those businesses.[97] Some customers may have falsely assumed the map's showcasing of the castle meant that Disney had affiliated itself with the mapmaker. But why should Disney care? Consumers are unlikely to boycott Disney's brand and characters featured at its theme park if the map turns out to be inaccurate.[98] At most, Disney has lost the opportunity to receive licensing fees for similar uses in the future.[99] While these sums may be

[97] *Id.* at 845 (indicating an unhelpful fact for the plaintiff was all of the other attractions featured on its map by logos appeared based on paid sponsorships; the maps themselves advertised those attractions).

[98] *See* Mark Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413, 437–38 (2009) [hereinafter Lemley & McKenna I]; Mark Lemley & Mark McKenna, *Owning Mark(ets)*, 109 MICH. L. REV. 137, 161 (2010) [hereinafter Lemley & McKenna II] (discussing marketing research studies that suggest that consumers do not punish "host" brands for the actions of their branding partners). These marketing studies results should not be taken as gospel, however. For one thing, the studies typically ask about actions taken by branding partners unrelated to the quality of item(s) in question, which are usually hypothetical, rather than real products. *See* Helmig et al., *supra* note 31, at 372–73 (noting flaws in the methodologies used in most studies of co-branding relationships). Studies that measure purchase data for branding partners after a co-branded product is found to be defective or lacking have found negative feedback effects. *See, e.g.*, Tülin Erdem, *An Empirical Analysis of Umbrella Branding*, 35 J. MKTG. RES. 339, 347 (1998) (finding evidence of negative feedback effects from low-quality brand extension from toothbrushes to toothpaste in scanner data from actual household purchases); Vanitha Swaminathan, *Sequential Brand Extensions and Brand Choice Behavior*, 56 J. BUS. RES. 431 (2003) (finding that negative evaluations of brand extensions lowered likelihood of trying subsequent extensions but did not effect purchases of the parent brand); Vanitha Swaminathan, Richard Fox & Srinivas Reddy, *The Impact of Brand Extension Introduction on Choice*, J. MARKETING 1, 12–14 (2001) (showing negative effects from brand extensions in household purchase data). However, certainly for uses as slight as a castle on a tourist map, whatever negative feedback effects might exist for worldwide audiences of Disney movies is likely to be vanishingly small.

[99] *See* Lemley & McKenna II, *supra* note 98, at 145 (dismissing various theories of harm to trademark owners, including a theory of lost licensing revenue as

substantial, trademark owners have no legal entitlement to payment every time their mark or product is referenced.[100]

What about the tourist? A lost tourist might care quite a bit about affiliation with the makers of the map. Assume, in a pre-GPS era, a person who is lost in an unfamiliar area and needs quickly to reach their destination. She has no easy way to judge the credibility of the map's information through inspection, and so must rely on some other indicator of the good's hidden quality. Affiliation with an established brand can provide that signal.[101] Some people might think the map is more credible because someone with Disney's clout authorized it.[102] In other words, travelers might presume that Disney would investigate the map and its maker before it allowed its name to be used, so the presence of the castle logo lends credibility to the map.[103] Indeed, research tends to show that buyers do reward products

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insufficient to justify prohibitions on use of senior marks by non-competitive sellers).

[100] *See*, *e.g.*, Tiffany, Inc., 600 F.3d at 102–03 (stating that use of mark to truthfully describe goods or services of a mark owner is not infringement). *See also* Dogan, *supra* note 37, at 106 (arguing that trademark law does not aim to provide exclusive rights in marks, but rather aims to provide informational clarity to the marketplace); William Landes & Richard Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 307–08 (1987). Arguments exist that allowing Disney to capture this revenue generally benefits society by inducing investment in creating prestigious brands. Even these authors admit that the effect is likely to be "slight," however.

[101] *See* Benjamin Klein & Keith Leffler, *The Role of Market Forces in Ensuring Contractual Performance*, 94 J. POL. ECON. 615 (1986) (demonstrating that the presence of nonsalvageable capital is a means of enforcing quality promises); Philip Nelson, *The Economic Consequences of Advertising*, 48 J. BUS. 213, 214 (1975); Rao et al., *supra* note 31, at 258 (finding that when evaluating a product that has an important unobservable attribute, consumers' quality perceptions are enhanced when a brand is allied with a second well-known brand name). *See also* Birger Wernerfelt, *Umbrella Branding as a Signal of New Product Quality: An Example of Signaling by Posting a Bond*, 19 RAND J. ECON. 458, 458–59, 461 (1988).

[102] Rao et al., *supra* note 31, at 258; Wernerfelt, *supra* note 101, at 458–59.

[103] *E.g.*, Nelson v. J.H. Winchell & Co., 203 Mass. 75, 82 (1909) (noting that "[i]t may be enough that [the use of a trademark conveys that articles] are manufactured for [the owner], that he controls their production, or even that they pass through his hands in the course of trade and that he gives to them the benefit of his reputation or of his name and business style"); Imperial Tobacco Co. of India, Ltd. v. Bonnan, 41 Rep. Pat. Cas. 441, 446 (1924) (noting that "[i]t is possible for an importer to get a valuable reputation for himself and his wares by his care in selection or his

that are affiliated with familiar brands especially in situations of uncertainty.[104] If the map is actually a piece of junk, then the consumer has been at least slightly harmed by the false impression of sponsorship. Or, if the tourist wants rigorous editorial integrity, then she is harmed by not knowing whether sponsorship played a role in what landmarks are represented on the map. But the map—using accurate logos accurately to describe the location of important tourist sites—does *not* harm the consumer. She is only harmed because she has no way to know what the presence of the logo signifies.

The oddity is that only Disney, and not the consumer, has standing to sue; at least under U.S, trademark law.[105] Even though in the age of smart phones and GPS, we are less likely than ever to rely on maps, this case embodies the exact agency issues raised by modern advertising. Trademark law deputizes Disney to redress the harm even though Disney's interests and the consumer's interests do not necessarily overlap. Indeed, the remedy in this case—removing the logo design from the map—vindicates Disney's concerns about preserving future licensing revenue. It does not adequately address the varied motivations of the consumer. She will have to pay more in the future for visually interesting maps, and she still has no way to know what the presence of a brand image or name means used in connection with an unrelated product.[106]

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precautions as to transit and storage, or because his local character is such that the article acquires a value by his testimony to its genuineness"), quoted in SCHECHTER, *supra* note 18, at 149.

[104] William E. Baker, *When Can Affective Conditioning and Mere Exposure Directly Influence Brand Choice?*, 28 J. ADVERTISING 31 (1999); Rajeev Batra & Michael Ray, *How Advertising Works at Contact*, *in* PSYCHOLOGICAL PROCESSES AND ADVERTISING EFFECTS 36 (Linda F. Alwitt & Andrew A. Mitchell, eds. 1985) (arguing that familiarity is the major determinant of purchase intentions in low-involvement conditions); Emma K. Macdonald & Byron M. Sharp, *Brand Awareness Effects on Consumer Decision Making for a Common, Repeat Purchase Product: A Replication*, 48 J. BUSINESS RES. 5, 5–15 (April 2000) (finding brand awareness to be a powerful influence on brand choice).

[105] *See, e.g.*, Condit, 259 F. Supp. 2d at 1051. *See also* 15 U.S.C. §§ 1114(1), 1125(a) (2005).

[106] World Impressions, Inc., 235 F. Supp. 2d at 833. Originally, Disney filed its claim as a counter to an infringement claim made by World Impressions related to Disney's use of the term CALIFORNIA ADVENTURES. That Disney brought the suit to achieve a tactical advantage over a litigation opponent makes the suit more

Mapmakers are not the only targets of such lawsuits. Consumer uncertainty about underlying commercial relationships leads to broad authority for trademark owners to object to even seemingly benign advertising practices. Trademark owners have sued search engines to stop the practice of linking advertising to popular brand names on the theory that some people may be confused about affiliation even if the advertised products make no such claims.[107] For example, Tiffany & Co. sued online auction site eBay to ask it, among other claims, to prevent resellers from using the Tiffany® mark, even if the resellers were actually selling authentic Tiffany®-branded goods or making non-misleading comparisons to Tiffany®-branded goods; because some consumers might assume the resellers were affiliated with Tiffany.[108]

In another case, Weight Watchers prevented rival diet food company Lean Cuisine from stating that its meals could be used as substitutes in the Weight Watchers® plan on the theory that some consumers might conclude that the two companies were related.[109] In such cases, the consumer interest in avoiding confusion is a phantom, a stalking horse; no actual consumer would object to these uses. The challenged conduct only provides more information about less costly substitutes for the brand name product. However, advertisers can use a cloak of consumer interest to challenge the practices because consumers do not know what to make of the use of brand names in an

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typical of such claims since many litigated claims are filed for the purpose of gaining market advantages unrelated to issues of sponsorship. *See infra* Part II(C) and text accompanying notes 166–174.

[107] *See, e.g.*, Rescuecom Corp., 562 F.3d at 126–27; Complaint, Rosetta Stone Ltd. v. Google, Inc., No. 1:09-cv-00736-GBL-JFA (E.D. Va. July 10, 2009); Complaint at 5, American Airlines, Inc. v. Yahoo! Inc., No. 4:2008-cv-00626 (N.D. Tex. Oct. 17, 2008); Complaint at ¶¶ 38–40, 62, 92–95, American Airlines v. Google, Inc., No. 4:2007-cv-00487 (N.D. Tex. filed Aug. 16, 2007).

[108] Tiffany, Inc., 600 F.3d at 96; Dow Jones & Co., 451 F.3d at 308 (noting that plaintiffs sued to enjoin the sellers of options from truthfully advertising options that were based on the plaintiffs' proprietary stock indexes). *See also* Home Box Office v. Showtime, 832 F.2d 1311, 1313 (2d Cir. 1987) (stating that HBO sued its rival Showtime to prevent it from advertising that a Showtime subscription could complement an HBO subscription on the theory that some might misread the text of the ad to think Showtime and HBO were related companies).

[109] Weight Watchers, 744 F. Supp. at 1262–263.

individual case. This allows trademark owners overreach to prevent legitimate competitors from gaining the attention of loyal customers.

Confusion over sponsorship in television and movies has also given trademark owners a *de facto* veto over whether their products can appear in any mass-market entertainment content,[110] even where the use is incidental or factual. For example, Caterpillar sued Disney in a sponsorship claim seeking to enjoin the studio's release of its "George of the Jungle" film because Caterpillar trucks were featured in one scene clear-cutting the jungle.[111] Additionally, the producers of the TV show "Felicity" changed the name of the university attended by characters on the show after New York University, the school originally referenced, objected to the depiction of those students as sexually active.[112] Although many of these claims fail, some do succeed.[113] The mere threat that a movie or television release could be derailed by a trademark lawsuit leads insurance agencies to demand clearance for all visible trademarks in a film regardless of whether the use could be defended as *de minimis* or fair use.[114]

As Professors Mark Lemley and Mark McKenna have written, consumer interest in such lawsuits seems negligible.[115] Although consumers might plausibly assume that the presence of a legible brand

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[110] *See* Lemley & McKenna I, *supra* note 98, at 417, 421 (collecting cases and threatened suits). *But see* Mattel, Inc. v. MCA Records, Inc., 296 F.3d 894, 906–07 (9th Cir. 2002) (finding that use of Mattel's Barbie® doll name as title and chorus of a humorous song was transformative parody and therefore not a trademark infringement).

[111] Caterpillar Inc. v. Walt Disney Co., 287 F. Supp. 2d 913, 917 (C.D. Ill. 2003).

[112] Sara Lipka, *PG-13? Not This College. Or That One. Or . . .*, CHRON. HIGHER EDUC., June 26, 2009, at 1; William McGeveran, *Trademarks, Movies, and the Clearance Culture*, INFO/LAW (July 2, 2009), http://blogs.law.harvard.edu/infolaw/2009/07/02/tm-movie-clearance/.

[113] Dallas Cowboys Cheerleaders, Inc., 604 F.2d at 205 (barring use of National Football League (NFL) team's trademark and cheerleaders' uniform in a pornographic film because viewers might assume the team authorized the film); Am. Dairy Queen Corp. v. New Line Prods., Inc., 35 F. Supp. 2d 727, 728 (D. Minn. 1998).

[114] *See* Gibson, *supra* note 10, at 893–94; Lemley & McKenna I, *supra* note 98, at 417, 421.

[115] Lemley & McKenna I, *supra* note 98, at 434, 438.

name indicates a paid endorsement, most probably do not care about such an assertion.[116] As they have already bought their movie tickets or set up their DVRs, any affiliation of a well-known brand with the movie or show is unlikely to affect their assessment of whether to watch the movie or program. In contrast, a broad public interest exists in having films that accurately depict daily life and its attendant encounters with trademarked products.[117] This is an audience interest, rather than an advertiser one. As such, advertisers exploit consumer assumptions about sponsorship to enforce managed brand personalities in popular culture.

Similar incentive issues arise with merchandising cases. Fans of sports teams spend hundreds of millions of dollars every year purchasing plush items embossed with the teams' colors or respective mascots. The universities or other institutions that field the teams produce some of these items, but more often than not, these items are produced under the team owners' license by unaffiliated sportswear and merchandise firms.[118] However, only firms that pay license fees to the team owners are allowed to manufacture t-shirts, key chains, teddy bears, and other items expressing team loyalty.[119] Universities and athletic leagues vigorously prosecute unauthorized vendors to protect this captive licensing revenue. Indeed, Major League Baseball (MLB) has taken such vigilance to extremes and has threatened to sue even Little League teams that name themselves after major league teams.[120]

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[116] *Cf. id.* at 434–35.

[117] *See, e.g.*, Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. REV. 60, 75 (2008).

[118] *See* Lemley & McKenna I, *supra* note 98, at 437 (asserting that there is no obvious source relationship between a university or professional sports team and the manufacturers of branded sports logo items).

[119] Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli*, 54 EMORY L. J. 461, 462 (2005) (asserting that fans who want to show support for a team have no choice but to purchase 'officially licensed' gear).

[120] *See generally* Tim Cronin, *MLB to Youth: You're Out*, HERALD NEWS, May 27, 2008. *See also* Lemley & McKenna I, *supra* note 98, at 416–17; Michael Masnick, *Major League Baseball Bullying Amateur Baseball in Trademark Shakedown*, TECHDIRT (Mar. 13, 2008), http://www.techdirt.com/articles/20080312/013742509.shtml (discussing the same claim brought by the MLB against an amateur Cape Cod League); Katie Thomas, *In Cape Cod League, It's Tradition vs. Trademark*, N.Y. TIMES, Oct. 24, 2008, at B11 (discussing a similar claim brought by MLB against an amateur Cape Cod League).

Under threat of suit, children's teams everywhere have begun changing their names.[121]

The Little League teams are right to worry. Courts regularly enjoin unauthorized vendors from using team names and colors on the assumption that fans presume affiliation.[122] Yet some courts ignore their own roles in reinforcing such presumptions. As Professor Jim Gibson wrote, consumers learn to think that all such uses are licensed because courts have decreed that they must be licensed.[123] Although many fans would probably prefer to give their money to authorized sellers, or might believe authorized goods are better quality than unauthorized ones, some might not care. Some might prefer cheaper and flimsier unauthorized t-shirts. As things stand, consumers are denied the choice, presumably for their own protection.

At the same time, some common promotion techniques really do blur the lines of sponsorship. Film and television screenwriters craft plots designed to showcase the products of paying endorsers.[124] Such relationships are disclosed only obliquely in tiny credits after the show has ended.[125] Social networking programs update individuals about their acquaintances' likes, choices, and purchases, but do not disclose if these acquaintances received any benefits for making these choices. Until recently, denizens of internet chat rooms and bulletin boards had to self-police against attempts by marketers to insert "sock puppets," that is, paid shills to tout certain products under the guise of

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[121] Lemley & McKenna I, *supra* note 98, at 417.

[122] *See, e.g.*, Dogan & Lemley, *supra* note 119, at 472–78 (describing such cases).

[123] Gibson, *supra* note 10, at 907–08, 911–12.

[124] *See* Stephanie Clifford, *Branding Comes Early in Filmmaking Process*, N.Y. TIMES, Apr. 5, 2010, at A1.

[125] *See* Eric Goldman, *Think You Want To Be Told About Product Placements In Movies? Think Again*, FORBES (July 9, 2013), http://www.forbes.com/sites/ericgoldman/2013/07/09/think-you-want-to-be-told-about-product-placements-in-movies-think-again-2/ (stating that "[i]n the United States, most mandatory disclosure laws don't matter much [because] . . . the publishers can present the disclosures obscurely, such as in the rapidly scrolling credits at the end of a TV show").

disinterested commentators.[126] Advertisers engage in "stunt marketing" where seemingly incongruous and random props, events, or characters cause puzzled viewers to pay attention to an explicit or implied advertising message.[127] Typically, no distinctive typefaces or other common indicia of sponsorship are employed in such communications.[128] Although trademark owners reserve the right to object when third parties make use of their logos, typefaces, and product images, many do not follow any uniform practice of employing such signifiers when it comes to their own promotions.[129] It is no wonder people are confused.

A. Consumer Interests in Sponsorship

The foregoing does not mean that consumers do not care about sponsorship. Indeed, consumers do care about sponsorship, and for a variety of good reasons. Sponsorship is a useful signal of quality and risk. Buyers, on the whole, benefit from transparent disclosure about sponsorship.

First, consumers use sponsorship and affiliate information as proxy indicators of quality.[130] Consumers often are at an informational disadvantage compared to sellers in the market. Consumers lack experience with many product offerings and expertise to evaluate such offerings before purchase. As common household and even business

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[126] Cory Doctorow, *Did Nvidia hire an army of message-board sock-puppets?*, BOING BOING ZINE (Feb. 6, 2006, 6:52 AM), http://boingboing.net/2006/02/06/did-nvidia-hire-an-a.html.

[127] *See, e.g.*, *Top 10 Successful Marketing Stunts*, ENTREPRENEUR (May 27, 2010), http://www.entrepreneur.com/slideshow/163762 (listing stunt marketing efforts such as paying a town to adopt a company's brand name, falsely claiming to have bought the Liberty Bell in a paid announcement, and making ridiculous suggestions for national landmarks to gain attention).

[128] *Cf. id.* (listing several marketing stunts that deliberately mimicked good faith announcements or offers to gain publicity).

[129] *E.g.*, Claire Cain Miller, *Company Settles Case of Reviews It Faked*, N.Y. TIMES, July 15, 2009, at B5 (describing company that objected to others using its trademark in real reviews while it ordered its own employees to create fake positive reviews for its website that gave no indication of the writer's affiliation with the company).

[130] Rao et al., *supra* note 31, at 258.

products have become more automated and complex, consumers may also lack the ability to thoroughly assess performance even after purchase. In conditions of uncertainty, consumers may try to gain information through evaluating signals from others.[131] Price is one such signal[132] in that many people believe that more expensive goods are likely to perform better. Familiarity of the product brand is another commonly used heuristic to gauge unknown product quality.

Familiarity signals a safe choice in conditions of uncertainty. A brand with which a consumer has experience is less likely to result in a bad outcome than a completely novel option.[133] Second, the fact that a brand is well-known signifies a level of investment in the brand by the underlying firm.[134] A firm that devotes substantial advertising revenue and additional product lines to a single brand offers its accumulated investment, in addition to expected future cash flows from products under the brand.[135] This cash flow serves as collateral to

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131 *See generally* Tülin Erdem & Joffre Swait, *Brand Equity as a Signaling Phenomenon*, 7 J. CONSUMER PSYCHOL. 131, 132, 135–40 (1998) (discussing different kinds of market signals); Amna Kirmani & Akshay R. Rao, *No Pain, No Gain: A Critical Review of the Literature on Signaling Unobservable Product Quality*, 64 J. MARKETING 66, 66–69, 75–76 (2000) (presenting a typology of different market signals); Philip Nelson, *Advertising as Information*, 82 J. POL. ECON. 729 (1974) (positing that advertising is a seller signal); George J. Stigler, *The Economics of Information*, 69 J. POL. ECON. 213, 224 (1961).

132 Joseph E. Stiglitz, *The Causes and Consequences of the Dependence of Quality on Price*, 25 J. ECON. LIT. 1 (1987) (discussing price signals).

133 *See* Girish N. Punj & Clayton L. Hillyer, *A Cognitive Model of Customer-Based Brand Equity for Frequently Purchased Products: Conceptual Framework and Empirical Results*, 14 J. CONSUMER PSYCHOL. 124, 125 (2004). *See also* Robert F. Bornstein, *Exposure and Affect: Overview and Meta-Analysis of the Research, 1968-1987*, 106 PSYCHOL. BULL. 265, 282 (1989) (hypothesizing that preference for the familiar is an adaptive trait that evolved in humans over many generations, whose effects protect an organism from interaction with unfamiliar substances or creatures until there is some evidence that they are not dangerous); Bradford, *supra* note 32, at 1260 (summarizing research studies).

134 Cynthia A. Montgomery & Birger Wernerfelt, *Risk Reduction and Umbrella Branding*, 65 J. BUS. 31, 38 (1992) (proving brand investments signify less quality variation and lower risk); Nelson, *supra* note 102, at 752; Wernerfelt, *supra* note 102, at 458.

135 Klein & Leffler, *supra* note 101, at 627, 630; Wernerfelt, *supra* note 102, at 459–61.

guarantee future quality consistency.[136] If the firm ceases to police quality or introduces inferior products to its line, it jeopardizes its entire investment in the brand.[137] Therefore, consumers rationally place higher confidence in brands that appear to have a greater backing because they represent a lower risk of inconsistent quality. A wealth of empirical studies suggests that consumers feel more positively towards—and are more likely to purchase—new products that are co-branded or otherwise affiliated with well-known sellers.[138]

Accordingly, sponsorship and affiliation relationships are enormously important and growing only increasingly in a crowded and quickly changing product landscape. Introducing new products is risky but critical to business success. To mitigate the risks, many businesses try to link new offerings to established names. Some researchers report that as many of 95 percent of new product introductions are actually extensions of existing brands into new markets.[139]

In addition to simple line extensions, some sellers have elected to forge brand alliances when two or more brand names are used on one product. One widely used example is co-branded loyalty credit card promotions. Tens of thousands of such promotions have been created since the practice began in the 1990s.[140] In the airline industry

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[136] Klein & Leffler, *supra* note 101, at 627, 630; Wernerfelt, *supra* note 102, at 459–61.

[137] Klein & Leffler, *supra* note 101, at 627.

[138] *E.g.*, Tim Ambler et al., *Salience and Choice: Neural Correlates of Shopping Decisions*, 21 PSYCHOL. & MARKETING 247 (2004) (describing a specific study on how branding simplifies consumer choice); Gammoh et al., *supra* note 31, at 465–66, 469, 480; Rao et al., *supra* note 31, at 258; Bernard L. Simonin & Julie A. Ruth, *Is a Company Known By the Company It Keeps? Assessing the Spillover Effects of Brand Alliances on Consumer Brand Attitudes*, 35 J. MARKETING RES. 30 (1998); Judith H. Washburn et al., *Brand Alliance and Customer-Based Brand Equity Effects*, 21 PSYCHOL. & MARKETING 487 (2004).

[139] Robert E. Carter, *Friend or Foe: The Impact of Line Extension Advertising and Perceived Quality on Parent Brand Sales*, University of Louisville College of Business Research Paper No. 2008-04, June 4, 2008, at 3, *available at* http://ssrn.com/abstract=1140847.

[140] *See* Ka-shing Woo et al., *An Analysis of Endorsement Effects in Affinity Marketing: The Case for Affinity Credit Cards*, 35 J. ADVERTISING 103 (2006) (noting that Mastercard alone hosted 15,000 affinity and co-branded card programs in 2001).

alone, frequent flyer credit card promotions have been estimated to generate more than $4 billion dollars of additional revenue annually for the airlines, and represent annual charge volumes of over $300 billion for participating banks.[141] Such promotions allow each partner member access to the customers of the other. Consumer familiarity with one of the parent brands may then spill over to usage of the co-branded item and even back to the other branding partner.[142] Other familiar co-branding examples include ingredient branding such as the IBM "Intel Inside" computer chip campaign, and short term joint promotions such as those between fast-food restaurants and popular children's films.

Some joint promotions are less obvious. For example,

> [a]dvertisers spent $2.9 billion in 2007 to place their products in TV shows and movies, up 33.7% from the year before, according to media research firm PQ Media. [In 2008,] spending [was] projected to hit $3.6 billion, not including "barter" arrangements—in which a company gives away products to be used in shows, rather than paying for them to be placed there.[143]

Embedding product displays within program content allows target purchasers to get to know the brand in a favorable context. Viewers' positive feelings towards characters in movies and television shows in may transfer to warm feelings about the attendant products and services these characters care about. No research suggests that viewers punish brands for embedding themselves within programs even though awareness of such practices is widespread.[144]

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[141] Jay Sorensen, *Frequent Flier Credit Cards Generate More than $4 Billion for Major U.S. Airlines - A Report From IdeaWorks*, THE IDEAWORKS COMPANY, *available at* http://www.ideaworkscompany.com/wp-content/uploads/2012/05/Analysis_USAirlineCC2008.pdf.

[142] Helmig et al., *supra* note 31, at 371.

[143] Alana Semuels, *Research Firm Nielsen Tallying Product Placement Ads*, L.A. TIMES, July 21, 2008, *available at* http://www.commercialalert.org/issues/culture/product-placement/research-firm-nielsen-tallying-product-placement-ads.

[144] Indeed, many companies report increased attention and sales after embedded promotions. Erik, *Top 40 Product Placements of all time: 20-11*, BRANDS & FILMS

The importance of sponsorship relationships is also supported anecdotally by the numerous instances in which sellers try to suggest affiliations with well-known products or persons even if none exist. For example, Oprah Winfrey and Dr. Mehmet Oz sued more than three dozen companies selling dietary supplements on the internet for falsely suggesting that Winfrey and Oz endorsed their products through unauthorized use of photos and video clips from Winfrey's television show.[145] In November 2009, the University of Texas sued a Dallas-based bottled water company for trademark infringement based on advertising claiming that the University's prestigious cancer research center had "tested" its water because the claims caused people to think that the center endorsed the health claims of the water manufacturer.[146] In July 2008, Taco Bell attempted to associate rapper 50 Cent with their "Why Pay More?" campaign, which promoted items costing less than a dollar.[147] The restaurant chain disseminated to newspapers a letter addressed to 50 Cent offering to donate $10,000 to the charity of his choice if the star, whose real name is Curtis Jackson, would call himself "99 Cent" for a day.[148] The chain only belatedly sent the letter to 50 Cent, presumably because they knew he would not accept the request.[149] However, by publicizing the offer, the chain succeeded in associating the star with their campaign and attracting a bonanza of media attention.[150]

(Jan. 10, 2011), at No. 14, http://brandsandfilms.com/2011/01/top-40-product-placements-of-all-time-20-11/ (providing Red Stripe® beer in "The Firm" as an example and noting that sales of the brand in the U.S. increased more than 50% in the month after the film's release).

145 Chloe Albanesius, *Oprah, Dr. Oz Sue to Block Diet Sites*, PC MAGAZINE (Aug. 20, 2009, 03:27 PM), http://www.pcmag.com/article2/0,2817,2351850,00.asp.

146 Robert Wilonsky, *Dallas-based Multi-level Marketing Company is in Hot Water with UT Board of Regents*, THE DALLAS OBSERVER BLOG (Nov. 19, 2009, 8:36 AM), http://blogs.dallasobserver.com/unfairpark/2009/11/dallas-based_multi-level_marke.php.

147 *50 Cent says Taco Bell stole his endorsement*, REUTERS (July 24, 2008), http://www.reuters.com/article/2008/07/24/us-50cent-lawsuit-idUSN2345011720080724.

148 *Id.*

149 *Id.*

150 *Id.*

An interesting counter-trend is a conscious decision by some consumers to avoid conspicuously branded or co-branded offerings. These people also care deeply about sponsorship, because at least with respect to certain goods, they want to avoid supporting entities that are too overtly "commercial." For example, in his 2008 book *Buying In*, New York Times advertising columnist Rob Walker reports his decision to stop wearing humble Converse® sneakers after realizing that the "indie" shoe was actually affiliated with Nike.[151] In 2002, a group of disaffected bike messengers, extreme sports enthusiasts, and other progressive groups in the Northwest rallied behind Pabst Blue Ribbon® beer because of its conspicuous lack of advertising support, in effect transforming the lagging product into the fastest growing domestic beer at that time.[152] Additionally, anti-branding activists launched an "anti-logo" sneaker, made in a union-run factory in Portugal called the Black Spot.[153] The black shoes come with a black spot made out of recycled material to signify its independence from commercial chains.[154] For these consumers, truthful information about sponsorship and affiliation affects buying preferences, too. As noted, the presence of a well-known brand signifies a level of quality control that consumers do not want. They prefer the authenticity of craftsmanship—the promise that not all products will be alike—to the mandatory sameness of mass-produced goods.[155]

For these reasons, confusion about sponsorship or affiliation is also confusion about the level of quality control underlying the product. Few consumers think consciously about unobservable quality, but their buying behavior suggests that they use the presence

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[151] ROB WALKER, BUYING IN xix–xx, 90–95 (2008) (describing Nike's purchase of Converse).

[152] ALEX WIPPERFURTH, BRAND HIJACK: MARKETING WITHOUT MARKETING 20–25 (2005).

[153] *See Blackspot: The Most Dangerous Shoe on the Planet*, ADBUSTERS, https://www.adbusters.org/campaigns/blackspot (last visited Dec. 5, 2014).

[154] *Id*.

[155] *E.g.*, WALKER, *supra* note 151, at 11, 234–36; Kalle Lasn, *Aesthetic Pollution and the Soul of Design*, ADBUSTERS (May 19. 2009), https://www.adbusters.org/magazine/83/aespollution.html (last visited February 28, 2010).

of familiar brands as a fast and frugal heuristic to gauge the level of quality control associated with an unfamiliar product. Therefore, any sponsorship claim can be seen on some level as an indicator of quality. Precisely because sponsorship information can be so influential, consumers largely benefit from unobtrusive, truthful information about affiliation.[156]

B. Consumer and Competitor Interests in Unsponsored Trademark References and Comparisons

Trademark law encourages quality workmanship by allowing mark owners to capture the value of this higher quality through premium pricing. However, the regime is meant to be "leaky."[157] Competitors can appropriate some of this value to themselves by advertising that their offerings are comparable to or compatible with that of the mark owner.[158] To the extent that use of the trademark owner's product creates demand for related products and services, unaffiliated sellers can fully capture these 'spillover' opportunities so long as they do not masquerade as the mark owner.[159] In these comparative circumstances, the law allows the benefit to the consumer of learning about new options to outweigh the loss of exclusivity and sales to the mark owner.[160]

The nominative fair use exception, like the exception for comparative advertising, similarly allows unrelated sellers to appropriate some of the value created by a trademark owner's

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[156] In the absence of such information, many of us assume sponsorship relationships even when they do not exist. For example, fans have criticized the popular television show "30 Rock" for excessive product placement even though in many cases, the featured products were actually written into the show organically. Matt Mitovich, *30 Rock Boss Tina Fey Addresses a McFlurry of Criticism*, TV GUIDE (Feb. 13, 2009, 06:31 PM), http://www.tvguide.com/news/30rock-fey-mcdonalds-1002943.aspx.

[157] *See, e.g.*, Dogan, *supra* note 37, at 103.

[158] *See* Smith v. Chanel, Inc., 402 F.2d 562, 566 (9th Cir. 1968).

[159] Landes & Posner, *supra* note 100, at 307. *See generally* Brett M. Frischman, & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257 (2007) (describing uncompensated spillovers from intellectual property regimes that benefit the public).

[160] Landes & Posner, *supra* note 100, at 307–08.

investments.[161] The nominative fair use exception allows other advertisers to use a mark as a shorthand way to refer to the mark owner and to its products.[162] A newspaper conducting a poll, for example, may refer to a pop music band by the name of the band.[163] A woman who was featured prominently in a men's magazine similarly may use the name of that magazine to promote her own accomplishments.[164] This exception allows others to share in the communicative and social properties of the mark even if they played no role in defining those properties. The mark owner, by contrast, may have invested very much in promoting the mark and investing it with a certain personality and attitude. Consumers may have responded to this advertising by developing their own traits and associations with the mark and affiliated products. The nominative fair use exception allows other advertisers to capitalize on these investments for the purpose of informing consumers about a new product or service. Both of these doctrines reflect an embedded policy choice to lower the return on investment for trademark owners to promote competition or certain kinds of market communication.

The comparative advertising and nominative fair use doctrines do not apply, however, if the communication at issue is likely to confuse consumers into thinking the advertiser is actually affiliated or sponsored by the mark owner.[165] Here is where widespread uncertainty about marketing practices benefits trademark owners. If consumers could easily distinguish between use of a trademark that indicates sponsorship and use of a trademark made for purely comparative or referential purposes, the lines between infringing conduct and permitted comparative advertising would be clear. As things stand, most consumers have no idea how to distinguish between the two. Context provides some clues, but embedded advertising is designed to

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161 *See* Cairns v. Franklin Mint Co., 292 F.3d 1139, 1151 (9th Cir. 2002) (indicating that the defendant's ultimate goal [in using the plaintiff's mark] was to describe his own product).

162 *See, e.g.*, New Kids on the Block v. News Am. Publ'g., Inc., 971 F.2d 302, 308 (9th Cir. 1992).

163 *Id.*

164 Playboy Enterprises, Inc. v. Welles, 279 F.3d 796, 801 (9th Cir. 2002).

165 *See* New Kids on the Block, 971 F.2d at 307–08.

mimic serendipitous, comparative, and purely referential uses. In effect, viewers remain uncertain.

A review of the sponsorship and affiliation cases brought in the last few decades quickly illuminates the advantages for trademark owners in preserving a wide latitude to file suit under a sponsorship theory. By rough count, about 12 percent[166] of the false sponsorship suits brought between 2000 and 2010 arose in the context of comparative advertising, in which defendants advertised their own products' compatibility with or availability as a substitute to a plaintiff's product by name and, more importantly, by its trademark.[167] Another not insubstantial fraction (about 10 percent) concerned objections to someone poking fun at some aspect of a plaintiff's mark or reputation in its own advertising or as part of a larger expressive work.[168]

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[166] I obtained this count by looking at all 169 references, until the year 2010, cited under West's Key Number 382TK1106, which refers to a discussion of confusion regarding the relationship between the parties using marks. The 169 references refer to 138 unique cases. Of these cases, 29, or roughly 20 percent, concerned use of a mark by a licensee outside the scope or term of the license. Seventeen, or roughly 12 percent, concerned cases against competitors attempting truthfully to advertise the availability of a complementary product or alternative distribution channel.

[167] *See, e.g.*, Australian Gold, Inc. v. Hatfield, 436 F.3d 1228, 1239 (10th Cir. 2006) (suing unauthorized Internet resellers of tanning bed lotions and other items for trademark infringement because plaintiff was deprived of opportunity to 'upsell' customers through authorized distribution chain); Automotive Gold, Inc., 457 F.3d at 1064 (suing maker of automobile accessories for use of plaintiff's mark on accessory gadgets designed for use with plaintiff's cars); Scott Fetzer, Co. v. House of Vacuums, Inc., 381 F.3d 477, 484 (5th Cir. 2004); Home Box Office, 832 F.2d at 1314 (suing competitor for advertising truthfully that consumers did not necessarily need to choose between the two services; they could order both); Bandag, Inc. v. Al Bolser's Tire Stores, 750 F.2d 903, 910–11 (Fed. Cir. 1984) (suing unauthorized dealer for using manufacturer's logo in advertisement truthfully stating that dealer carried manufacturer's products); Mary Kay, Inc. v. Weber, 661 F. Supp. 2d 632, 634–44 (N.D. Tex. 2009); Weight Watchers, 744 F. Supp. at 1259 (suing competitor for claiming its meals could be eaten as part of Weight Watchers plan); Stormor v. Johnson, 587 F. Supp. 275 (W.D. Mich. 1984); Fund of Funds, Ltd. v. First Am. Fund of Funds, 274 F. Supp. 517 (S.D.N.Y. 1967).

[168] New York Stock Exch., Inc. v. New York, New York Hotel, LLC, 293 F.3d 550 (2d Cir. 2002) (suing Nevada casino for replicating façade of stock exchange as part of the décor of one of its hotels); Carson v. Here's Johnny Portable Toilets, Inc., 698 F.2d 831, 838 (6th Cir. 1983); Anheuser-Busch, Inc. v. VIP Products, LLC, 666 F. Supp. 2d 974, 984–85 (E.D. Mo. 2008).

This analysis suggests that many sponsorship lawsuits are about protecting distribution channels or brand image rather than vindicating actual consumer confusion. While most consumers understand that a negative reference to a competing product is not likely to be sponsored, any attempt to advertise an alternative good or service as complementary, compatible, or even similar to a leading brand is likely to cause some non-trivial percentage of consumers to wonder if the trademark owner had to give permission for the comparison.[169] Even this meager showing allows a category leader in the marketplace to cut off a potential competitor's advertising after the competitor has already invested time and money in producing the campaign.[170] The *in terrorem* effect of such a sanction is enough to discourage companies of low-cost alternative products from informing the public about the possibility of substitution.[171]

Category leaders need not confine themselves to actual competitors. Pervasive uncertainty about sponsorship practices allows producers who earn large profits from exclusive sales channels to move against retailers who undercut the authorized dealer's pricing. Tiffany & Co., for example, ensures consistency of brand image and premium pricing for its jewelry by only selling products at its Tiffany®-branded stores.[172] Tiffany & Co. has every right to adopt such a business model. Purchasers also have a right to resell any good purchased at an authorized Tiffany & Co. store, but until recently, such resellers were small-scale and difficult to locate. Market aggregators such as eBay—which operates as an online flea market for resellers of branded goods—have changed the landscape. Tiffany & Co. may have been concerned that some purchasers thought they were dealing with authorized Tiffany®-branded stores in buying from eBay. Much more likely, however, is the possibility that Tiffany simply wanted to

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[169] *See* Gibson, *supra* note 10, at 907.

[170] *See, e.g., supra* note 167.

[171] Similar points have been made with respect to false advertising claims. *See* Lillian R. BeVier, *Competitor Suits For False Advertising Under Section 43(a) Of The Lanham Act: A Puzzle In The Law Of Deception*, 78 VA. L. REV. 1, 3, 44 (1992) (noting that most false advertising suits concern comparisons attempting to alert consumers to alternatives to a dominant brand and calling false advertising cases 'rhetorical feasting at consumers' expense').

[172] *See* Tiffany (NJ) Inc., 576 F. Supp. at 472–73.

cut off what had become its biggest competitor in the sale of luxury jewelry. In the case, Tiffany sought—through a claim of contributory infringement due to affiliation confusion—to impose on eBay the obligation to determine whether or not resellers were violating Tiffany's detailed anti-counterfeiting guidelines.[173] Had this rule been adopted, and then multiplied out by all of the other retailers with anti-counterfeiting policies whose goods were resold on eBay, the policing burden would quickly have overwhelmed eBay. This may, in fact, have been the entire point of the lawsuit.[174]

Slightly different concerns motivate lawsuits to enjoin references to trademarks or products in advertising for completely unrelated goods or expressive works. Because trademark owners work so hard to establish an "identity" for their goods that will resonate emotionally with the targeted segment of consumers, others may want to call upon that identity to position their own goods. For example, the makers of the Battletanx® video game wanted to gain the attention of the primary market demographic for video games: boys.[175] They did so by launching an advertisement featuring a tank blowing up the Snuggle® fabric softener bear—a quick and easy way to demonstrate that the game was for rebellious and irreverent young men ready for some independence from their parents.[176] The small-scale coffee bean roaster in New Hampshire that called its darkest blend "charbucks" as a way of positioning itself as an independent, cleverer alternative to Starbucks was trying much the same thing.[177]

In such cases, plaintiffs might legitimately complain of some damage to their marks. The real thrust of their grievance would not be confusion about source or sponsorship, however. Rather, trademark

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[173] *Id*. at 469.

[174] *Cf. id*. at 512 (admonishing Tiffany against using the doctrine of contributory trademark infringement "as a sword to cut off resale of authentic Tiffany items").

[175] *See* Henry Jenkins, *Reality Bytes: Eight Myths About Video Games Debunked*, PBS.COM, http://www.pbs.org/kcts/videogamerevolution/impact/myths.html (last visited Dec. 11, 2014) (noting that primary players of video games are young boys).

[176] *Puppet Bears*, TVACRES.COM, http://www.tvacres.com/puppets_bears_snuggle.htm (last visited Aug. 4, 2014) (discussing the advertisement issue in Lever Bros. v. 3DO).

[177] Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 477 F.3d 765, 765–66 (2d Cir. 2007).

owners may object to referential advertising because it allows others to free ride on their own previous investments in the information contained in their own marks.[178] Referential advertising enables sellers to make use of consumers' existing knowledge—which was created by the mark owner—and past experience with their competitor's brands in order to provide more complete information about a different product. Furthermore, too many such uses might "clutter" the public's perception of the mark owner and dilute the effectiveness of the mark owner's own advertising.

Two responses can be made. First, that trademark law provides exceptions to infringement for "comparative advertising" and "nominative" or referential use suggests that it has implicitly resolved that the benefits of such uses outweigh their costs. Second, if this conclusion is mistaken, the wisest course would be a straightforward prohibition of the use of another's mark in advertising or expressive works. That would clearly delineate the interests at stake, which have everything to do with free riding and almost nothing to do with confusion. By contrast, allowing a trademark owner backdoor leverage to police such use through sponsorship or affiliation confusion sends a mixed message to advertisers about what conduct is permitted.[179]

In summary, although sponsorship uncertainty costs advertisers, it benefits them as well. In this way, trademark owners are imperfect agents in enforcing the public interest in providing clear information in the marketplace.

III. Agency Costs and Trademark Enforcement

This section uses an agency cost framework to argue that trademark law can more closely tailor advertiser incentives to promote public welfare with respect to sponsorship claims. This section draws from a robust literature examining agency costs in situations from corporate financing to agricultural production contracts. The focus of the literature is to describe many existing contractual forms in terms of their ability to decrease agency costs. A normative strain also exists that attempts to determine the optimal structure for a given relationship

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[178] *See, e.g.*, First Amended Complaint at 36, Tiffany (NJ) Inc. v. eBay Inc., No. 04 Civ. 4607 (NRB), 2004 WL 2237672 (S.D.N.Y. July 14, 2004).

[179] *See* BeVier, *supra* note 171, at 46–47.

to maximize the well-being of the principal, given uncertainty and imperfect monitoring.

A. The Framework of Agency Costs

The lack of alignment between trademark owner and consumer interests in sponsorship and affiliation cases is an example of an agency cost. Agency relationships exist wherever

> one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating decision-making authority to the agent. If both parties to the relationship are utility-maximizers[,] there is good reason to believe that the agent will not always act in the best interests of the principal.[180]

A principal focus of the agency costs literature is on designing institutional structures to encourage loyal behavior by agents at the lowest possible cost.[181] The term "agency costs" refers both to the positive monitoring and bonding costs incurred to keep an agent loyal and to the losses that occur as a result of agent disloyalty that are not worth preventing (otherwise known as "residual costs").[182]

Agency costs are well understood in other areas of law. A common example is the issue of shareholders and managers in a corporate firm.[183] A manager may fail to maximize the wealth of the firm for shareholders because she or he may not receive commensurate gains from increased firm performance. At the same time, managers can gain from extracting personal perquisites—such as a high salary or an extravagant office—without bearing the costs of such behavior, which will accrue to shareholders as decreased returns.[184] Shareholders

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[180] Jensen & Meckling, *supra* note 39, at 308–09.

[181] *Id*. at 309–10.

[182] *Id*. at 308.

[183] *E.g.*, Kenneth J. Arrow, *The Economics of Agency*, *in* PRINCIPALS AND AGENTS, THE STRUCTURE OF BUSINESS 37, 39 (John W. Pratt & Richard J. Zeckhauser eds., 1985).

[184] Jensen & Meckling, *supra* note 39, at 313.

can limit these costs by increasing monitoring or designing performance incentives, but only when the expected gains in efficiency exceed the costs of such monitoring.[185] Though most of the agency literature addresses specific, formal types of contracts, the framework can be applied to any cooperative effort to achieve a stated aim.[186]

B. Trademark Owners as Consumer Agents

Trademark law is part of a larger panoply of regimes that protect intangible or "intellectual" property. It may then seem odd to conceive of owners of trademark rights as anyone's "agent." We typically think of owners of property as "principals." Through establishment and management of their property, they enlarge their own wealth and also that of society. In the language of economics, owners of real or personal property are the "residual claimants" of the resource who are most likely to maximize its productive capacity because they will profit or suffer the most from changes in its value.[187]

Unlike real property entitlements, intellectual property entitlements are not designed to maximize individual wealth and effort. Instead, intellectual property ones are limited grants designed to encourage the production and dissemination of new works. By design, we allow much of the surplus value of such works to revert to the public.

In this way, intellectual property entitlements have an agency component to them not present—or at least much less salient—in the context of real property. For example, if all we meant to achieve through the award of intangible entitlements was to maximize investment in each entitlement, we would award such rights in perpetuity once the initial standards for protection had been met. We limit the duration of rights in intellectual property because of a collective sense that society as a whole will benefit if private parties can capture only some, but not the whole, of the value of

[185] *Id.* at 328.

[186] *Id.* at 309. *But cf.* Arrow, *supra* note 183, at 39 (extending the framework to tortfeasors, victims, polluters, and government regulators).

[187] Merrill, *supra* note 65, at 482, 495–96.

commercializing the work.[188] Thus, entitlement holders act in important respects as agents of the public in producing and managing a given resource. In economic parlance, it is the public, not the entitlement holder, who holds the "residual claim" to the intangible work.

Conceptualizing limited intellectual property entitlements as agency relationships can explain some of the historical features of such schemes that set them apart from pure property regimes. Property entitlements reserve to the owner the right to deploy a resource as she thinks best.[189] If the owner violates a public safety rule or uses the property to annoy a neighbor, she may be liable for nuisance or another civil sanction, but in no way will her claim to the resource be jeopardized. In intellectual property systems, however, ownership and enforcement rights historically have been conditioned not only on initial inventive activity, but also on continued use in ways considered beneficial to the public.

For example, copyright's historical requirement that authors follow certain formalities to gain protection can be seen as a form of bonding cost that ensured that copyright owners would invest in wide dissemination of a work. Until 1978, copyright owners who failed to follow statutory notice, deposit, and renewal requirements automatically forfeited their right to copyright protection.[190] To receive full rights, owners had to notify the public of their claim at first publication and again when they formally requested a renewal term.[191] This rule ensured that copyright ownership went to those who were motivated to exploit and disseminate the resource for public consumption.[192] The cost of complying with the formalities meant that

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[188] *E.g.*, Richard A. Epstein, *The Disintegration of Intellectual Property*, 62 STAN. L. REV. 455, 483–84 (2008).

[189] *See, e.g.*, Eric R. Claeys, *Takings, Regulations, and Natural Property Rights*, 88 CORNELL L. REV. 1549, 1622–624 (2002-2003).

[190] *E.g.*, Act of Mar. 4, 1909, ch. 320, §§ 1, 19–24, 35 Stat. 1075 (repealed 1976) [hereinafter 1909 Act].

[191] 1909 Act §§ 19, 23–24.

[192] *See* Christopher Sprigman, *Reform(aliz)ing Copyright*, 57 STAN. L. REV. 485, 502, 514 (2004) (arguing that notice and registration requirements served as a valuable filter that separated commercially valuable works from commercially valueless works, and helped to focus the pre-1976 copyright regime in a way that maximized the incentive value of copyright while reducing the social costs).

owners would need remuneration in the form of sales or public renown. They would, therefore, invest more in promoting and distributing their work(s). The need for renewal also cleared deadweight claims that might hold up profitable future use of creations. Copyright's formality system was harsh in punishing unwary authors, but it also efficiently separated those who would invest in broad public distribution of creative works from those who would not. In this way, it imposed an efficient "bonding" cost.

The oldest recorded trademark systems, the guild codes from medieval and renaissance Europe, incorporated similar bonding elements. Guild codes uniformly required members to affix marks of production to their work.[193] The purpose was to enable authorities to trace goods of inferior quality back to their maker.[194] Master artisans were required to adhere to strict quality and training standards, and for the most part, were not permitted to license rights in their mark to others.[195] In return, the guild members received the benefit of participating in a strictly-enforced trade monopoly.[196] These requirements served guild and public interests by allowing certain regions (and their guilds) to acquire reputations for expertise and skill in specific trades that would attract business and travelers to their respective areas.[197] They served public interests by allowing purchasers to rely on guild marks to signify that a good met requisite

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[193] SCHECHTER, *supra* note 18, at 47.

[194] *Id*. at 47–63.

[195] *See* EDWARD S. ROGERS, GOOD WILL TRADE MARKS AND UNFAIR TRADING 40 (1914) (citing medieval French guild rules that conditioned enforcement of trade labels and devices on a merchant's submission to public inspection and approval of goods, and his promise not to lend his mark to anyone else—"If the legislature and the courts are thus sedulous to protect the rights of individuals in respect to their own inventions, labels and devices, it would seem to be implied that such individuals should not themselves attempt or allow any imposition upon the public by the false and fraudulent use of such labels, devices or names or inventions for the sale of spurious or simulated articles"); SCHECHTER, *supra* note 18, at 59–60.

[196] *See* SCHECHTER, *supra* note 18, at 40–41 (noting that guilds acquired rigid monopolies of the trade in their area), 62–63 (stating that one of the main purposes of medieval guild marks was to permit the tracing of 'foreign' goods to preserve the guild monopoly).

[197] *Id*. at 79–93.

quality standards instead of having to take the time to investigate the good in detail themselves.[198] In economic terms, adherence to the guild regulations imposed a bonding cost on members that pledged the merchant's sunk investment in training and reputation to upholding quality standards that helped the public. Although these rules discouraged innovation and competition,[199] they did have the beneficial effect of tying enforcement and use rights to corresponding obligations to public interests.[200]

Modern sellers also act as "agents" for consumers in a slightly different sense. Primarily, modern brand owners provide information through advertising, packaging, and pricing levels to assist buyers in making choices.[201] When a buyer cannot effectively ascertain the worth of a good before purchase, he is dependent on information from others to make up his mind. For example, some qualities of goods—such as durability, reliability, and efficacy—can only be ascertained over time.[202] For some goods or services, such as medical advice or education, the consumer lacks the relevant expertise to judge the qualities of the good or service even after purchase.[203] Sellers of high-quality items have better information about the unobservable attributes of their goods, and have an interest in providing this information to buyers.[204] Unfortunately, sellers of low quality items will also make

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[198] *Cf. id.* at 47 (stating that the purpose of medieval guild marks was to encourage good workmanship by facilitating the tracing of defective wares), 85–86 (quoting sources praising towns for preserving quality standards so that strangers would trust the seal of the town on goods without further inspection).

[199] *Id.* at 42.

[200] *Id.* at 40, 46 (noting that enforcement of guild monopolies were accompanied by the preservation of high standards of production).

[201] *E.g.*, Mark Bergen et al., *Agency Relationships in Marketing: A Review of the Implications and Applications of Agency and Related Theories*, 56 J. MARKETING 1, 16 (1992); Debi Prasad Mishra et al., *Information Asymmetry and Levels of Agency Relationships*, 35 J. MARKETING RES. 277, 278–80 (1998).

[202] Nelson, *supra* note 131, at 730; Philip Nelson, *Information and Consumer Behavior*, 78 J. POL. ECON. 311, 312–13, 318 (1970); Stigler, *supra* note 131, at 224; Stiglitz, *supra* note 132, at 2–3 (discussing price signals).

[203] Nelson, *supra* note 131, at 730.

[204] Kirmani & Rao, *supra* note 131, at 68.

the same claims. Buyers thus face an "adverse selection" problem because in the absence of better information, they may choose an unreliable seller, or "agent."[205] Moreover, the decision to invest in promoting a trademark has been called a "bonding" cost between sellers and consumers because the seller's nonsalvageable investment in promoting the brand alerts consumers that the seller is properly incentivized to invest in quality.[206] The use of trademarks, then, can be seen as a solution to an agency problem of hidden information.[207]

Modern trademark owners further act as agents of consumers in enforcing rights against deceptive sellers. The presence of valuable trademark rights gives the owner incentives to seek out and punish fraudulent conduct that might otherwise go without remedy. However, agency costs remain where the trademark owner can use its enforcement powers to engage in anti-competitive conduct against other sellers that harms consumer welfare generally. Furthermore, because enforcement rights are no longer conditioned on obligations to use marks in specific ways, trademark owners can "cheat" in their own communications and still bring the full force of law to bear on ambiguous marketing practices by others. This is a problem of "hidden action" or "moral hazard" that arises after the principal has selected an agent, but cannot be certain of its performance.[208]

The problem can perhaps be illustrated through an analogy to a more recognized instance of conflicting enforcement incentives. A similar but more severe moral hazard problem arises with plaintiffs' attorneys in derivative lawsuits. Derivative lawsuits are suits brought in the name of a corporation to vindicate mismanagement on the part

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[205] George A. Akerlof, *The Market For "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Q. J. ECON. 493 (1970); Mishra et al., *supra* note 201, at 277–78.

[206] Erdem & Swait, *supra* note 131, at 132–33 (discussing different kinds of market signals); Pauline M. Ippolito, *Bonding and Nonbonding Signals of Product Quality*, 63 J. BUS. 41 (1990); Kirmani & Rao, *supra* note 131, at 66–69, 75–76 (presenting a typology of different market signals); Klein & Leffler, *supra* note 101, at 618, 626.

[207] Mishra et al., *supra* note 201, at 277–78.

[208] Arrow, *supra* note 183, at 38.

of corporate directors or officers.[209] As directors cannot be expected to sue themselves, the law deputizes outside shareholders to petition the company to sue on its behalf.[210] In reality, most of these suits are initiated by alert plaintiffs' counsel that seek out the requisite shareholders at a later time. These attorneys are not hired by their clients in the usual sense; rather, they seek out potential lawsuits and then engage suitable clients. They act as agents of shareholders who would otherwise suffer from collective action problems in attempting to identify and remedy meritorious claims of corporate mismanagement.[211] In this way, plaintiffs' attorneys become "bounty hunters"—or, less pejoratively, independent monitoring forces—motivated to prosecute legal violations still unknown to prospective clients.[212]

As in the trademark context, this system also creates the potential for over-enforcement and abuse. Because the agency relationship is imposed by legal regulation, shareholder plaintiffs are unlikely to exercise a great deal of monitoring or oversight of plaintiffs' attorneys. Unconstrained by client supervision, the attorney may be motivated to sue in situations where the client would not.[213] The possibility of obtaining lucrative fee awards, for example, might induce an attorney to file even a specious claim, if some possibility existed that the management directors would rather settle than litigate.

To dissuade such conduct, most jurisdictions provide increased monitoring of derivative lawsuits through increased procedural hurdles that invite corporate or judicial oversight. For example, plaintiffs' attorneys must meet heightened evidentiary standards through the requirement of making "demand" on a corporate board or demonstrating why demand should be excused.[214] In addition,

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209 *E.g.*, Daniel R. Fischel & Michael Bradley, *The Role of Liability Rules and the Derivative Suit in Corporate Law: A Theoretical and Empirical Anaylsis*, 71 CORNELL L. REV. 261, 262 (1985-86) (defining derivative suits).

210 *Id.*

211 John C. Coffee, Jr., *Understanding the Plaintiff's Attorney: The Implications of Economic Theory for Private Enforcement of Law Through Class and Derivative Actions*, 86 COLUM. L. REV. 669, 679–80 (1986).

212 *Id.* at 679.

213 *Id.*

214 FED. R. CIV. P. 23(1).

corporate officers may regain control of the suit at a later stage if it appears that the lawsuit is no longer in the company's best interest.[215] Finally, courts have attempted to alter attorney incentives to file specious lawsuits by altering the way that fee awards are calculated.[216]

A similar monitoring or disincentive scheme might be used to dissuade over-enforcement of trademark rights in the sponsorship context. Indeed, although not suggesting an agency framework *per se*, several prominent trademark scholars recently have called for increased monitoring of advertisers in the sponsorship area.[217]

IV. <u>A Common Language of Sponsorship</u>

This section explores one possible way to re-align incentives to promote useful and unobtrusive sponsorship disclosure from advertisers. Currently, trademark regulations reward overzealous policing of trademarks. However, these same regulations could be refined to better align owner and consumer interests in transparency.

Trademark owners suffer from a problem of "use it or lose it."[218] Their rights in their trademark contract or expand based on the

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[215] *E.g.*, Zapata Corp. v. Maldonado, 430 A.2d 779 (Del. 1981) (allowing an independent special litigation committee to dismiss a derivative lawsuit upon approval by the court).

[216] Private Securities Litigation Reform Act of 1995, Pub. L. 104-67, 109 Stat. 737 (1995) (codified as amended in various sections of 15 U.S.C.).

[217] One proposal to halt over-enforcement of sponsorship claims is to impose heightened pleading standards on such claims. In their 2009 article *Irrelevant Confusion*, Professors Lemley and McKenna propose that plaintiffs in affiliation confusion cases should have to prove not only likelihood of confusion, but also that the confusion is likely to be material to the consumer's perception of quality. *See* Lemley & McKenna I, *supra* note 98, at 445–46. This idea has a certain elegance, but fails to acknowledge legitimate consumer interests in policing use of marks as signals, even among merchants who do not directly compete. Because the presence of a familiar mark acts as a proxy for more careful and explicit quality evaluations, virtually any confusing use of a trademark could be said to be "material" to a consumer's perception of quality. This is especially true if courts continue to define "initial interest" in a product as a species of actual confusion.

[218] *E.g.*, FRANK H. FOSTER & ROBERT L. SHOOK, PATENTS, COPYRIGHTS & TRADEMARKS 179–80 (1993) (stating that if you fail to object to another's use of your trademark, the mark will cease to be distinctive and you will lose your rights); Jason Fischer, *Removing "Confusion" with Trademarks*, TACTICALIP (Jan. 19, 2010, 06:18 PM), http://www.tacticalip.com/2010/01/19/removing-confusion-with-

extent that others are concurrently using the same or similar marks. Although infringement lawsuits depend on consumers being confused about such other uses, courts consider a variety of different factors in assessing the likelihood of such confusion. These differ by circuit, but generally a factor determining the likelihood of succeeding against an infringer is the "strength of the plaintiff's mark."[219] Strength is measured in part by exclusivity of use.[220] The more that the same or similar marks are used by others—regardless of whether or not those uses are confusing—the weaker the trademark owner's rights become.[221] The test is similar with regard to dilution of famous trademarks. A mark's eligibility for this extra protection depends in part to the extent that the mark's owner has exclusive use of the term.[222] This includes use of the mark in non-competitive fields. Therefore, a mark owner who fails to zealously police even non-competitive users of similar marks can be seen as willfully weakening

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trademarks (stating that trademarks only work as communicators of information if they link one single producer with a particular product); *McDonalds v. McFest: Boo Freakin' Hoo—Journalists Should Talk to Trademark Lawyers Before Writing Whine-Pieces*, THE LEGAL SATYRICON (Jan. 21, 2010, 11:15 AM), http://randazza.wordpress.com/2010/01/21/mcdonalds-v-mcfest-boo-freakin-hoo-journalists-should-talk-to-trademark-lawyers-before-writing-whine-pieces/ (explaining why McDonald's had to oppose the application to register MCFEST for a charity concert to benefit the Special Olympics or risk a reduction in the value of its brand).

[219] *See, e.g.*, AMF, Inc. v. Sleekcraft Boats, 599 F.2d 341, 348 (9th Cir. 1979); Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 495 (2d Cir. 1961), *cert. denied*, 368 U.S. 820 (1961).

[220] *See, e.g.*, Taj Mahal Enters, Ltd. v. Trump, 745 F. Supp. 240, 248 (D.N.J. 1990) (noting that although the mark TAJ MAHAL for restaurants was suggestive and therefore distinctive, widespread use of the term TAJ MAHAL for restaurants made it a weak mark overall).

[221] *See, e.g.*, Pignons SA v. Polaroid Corp., 657 F.2d 482, 492 n.3, 495 (1st Cir. 1982) (noting that the greater the number of identical or more or less similar marks already in use on different kinds of goods, the less the likelihood of confusion; also quoting the Restatement (First) of Torts § 729 cmt. g (1938)); Nautilus Group, Inc. v. Savvier, Inc., 427 F. Supp. 2d 990, 995 (W.D. Wash. 2006); Moose Creek, Inc. v. Abercrombie & Fitch Co., 331 F. Supp. 2d 1214, 1225 (C.D. Cal. 2004) (stating that protection of even strong marks is weakened by the presence of a 'crowded field').

[222] 15 U.S.C. § 1125(c)(2)(B)(iii) (naming exclusivity of use as one of six factors to be weighed in determining likelihood of dilution by blurring).

their own asset. In a corporate situation, fiduciary duties to maximize shareholder value arguably require legal officers to object to even seemingly benign uses of their mark.

These regulatory incentives could be reversed. Trademark owners can enjoin use of any similar mark that is likely to cause consumers to mistake a product as being sponsored, approved, authorized, or otherwise affiliated with a mark owner.[223] The factors that courts rely on in trademark infringement and dilution cases are drawn from common law precedent and have evolved over time.[224] Courts freely emphasize some factors over others when the circumstances of an individual case require.

To these factors, judges in pure sponsorship cases might add consideration of a plaintiff's own efforts at maintaining consistency in disclosing marketing affiliation. If a plaintiff has made a good faith effort, clearly and consistently in distinguishing promotional use of its mark from incidental or referential use, then this factor should weigh in its favor.[225] When other factors show that consumers are likely to be confused by a defendant's advertising, notwithstanding the plaintiff's efforts to provide clarity about branded communication, then that defendant has overstepped. If, however, a plaintiff has been ambiguous in its own promotions—whether on television, in print, though word of mouth marketing, or otherwise—then it should have less leeway to object to similarly ambiguous uses of its mark by others.[226] Ambiguity in this context would be an issue of fact for defendants to plead and judges to weigh; it might include undisclosed media product placements, sponsored content that appears editorial, or the use of paid shills to engage in seemingly "organic" product endorsement.

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[223] 15 U.S.C. § 1125(a).

[224] *See, e.g.*, Bone, *supra* note 68, at 1328, 1331–336 (discussing the historical development of the multi-factor likelihood of confusion test for trademark infringement). *Cf.* Landes & Posner, *supra* note 100, at 308 (noting that trademark is a creature of common law jurisprudence, notwithstanding the Lanham Act).

[225] *See supra* note 224.

[226] *See* Richard Bierschbach & Alex Stein, *Overenforcement*, 93 GEO. L. J. 1743, 1758 (2005) (advocating the use of heightened evidentiary or procedural standards to minimize over-enforcement of a legal sanction).

The virtue of tying protection to disclosure is that it asks advertisers to stand by their choices. If they believe transparent sponsorship information is important, they must make some effort to provide it to consumers. If they prefer more ambiguous marketing strategies, then they must allow wider latitude for less-controlled, more editorial use of their mark by others. In such circumstances, a trademark owner's duty to protect the strength of its mark should lead it to provide more disclosure rather than less. (The natural risk aversion of corporate counsel should help in this regard.)

Another possible intervention would be to provide a "safe-harbor" form of sponsorship disclosure. Currently, the lack of a common language of sponsorship places a heavy policing burden on brand owners. Unauthorized use of a logo as a mark on a similar product is clearly confusing. Because of the prevalence of brand extensions and co-branding strategies, even use of a logo or design in an unrelated field can raise an implication of sponsorship. To preserve the signaling value of the logo for future brand extensions, mark owners then must police unrelated markets as well as direct competitors. To preserve the ability to extend the brand into new markets, brand owners must assert exclusive rights in product appearance and typeface.[227] This quickly puts mark owners on the absurd path of having to object when anyone anywhere ever accurately depicts their product or logo.[228] Consumers then learn to expect that any such reference, no matter how innocuous, must be authorized.

One way to ameliorate the coordination problem between sellers is to provide a standardized mode of sponsorship disclosure across product classes.[229] Trademark law already provides a few voluntary and well-understood symbols that reduce information

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[227] *See, e.g.*, FOSTER & SHOOK, *supra* note 218.

[228] *See, e.g.*, Ron Coleman, *Foul Ball*, LIKELIHOODOFCONFUSION.COM (Mar. 2, 2010), http://www.likelihoodofconfusion.com/foul-ball/ (defending Louis Vuitton's lawsuit against Hyundai for making a joking reference to Louis Vuitton's trademarks on a basketball as necessary to prevent dilution of the commercial power of their brand); Dave Weber, *Chrysler Taking Heat for Decision to Protect Logo*, ORLANDO SENTINEL, Feb. 4, 2010, *available at* http://articles.orlandosentinel.com/2010-02-04/news/1002030132_1_trademark-rights-logo-chrysler-headquarters (last visited Dec. 11, 2014) (describing Chrysler's lawsuit against a high school for using its Dodge Ram logo as the school mascot).

[229] *E.g.*, Beales et al., *supra* note 91, at 522–27 (arguing that the provision of standardized scoring systems is likely to be an efficient form of regulation).

problems between competing sellers. For example, trademark owners who have achieved federal registration of their marks can use the R symbol with a circle around it (®) to signal to others their stake in the protected term.[230] Anyone who then infringes the mark with knowledge of the plaintiff's rights will owe enhanced damages.[231] Even those without a federal registration can use the term "TM" with a circle to denote a phrase or slogan that they seek to use as a source-identifier.[232] The availability of these common and unobtrusive symbols across product classes enables unaffiliated producers to communicate clearly and quickly with one another and with the public.

A similar symbol, an "S" with a circle, could provide a similar unobtrusive common language for sponsorship relations. That is, advertisers could require use of an S symbol when engaging in co-branding or other affiliate marketing in much the same way that advertisers use the R symbol to communicate about registration status. Such a symbol could save enforcement costs for sellers because they would no longer need to zealously police even non-competitive and expressive uses of their marks to safeguard the signaling effect of their typefaces and logos. It would save litigation costs for newcomers and third party sellers who would have a better idea of the line between legitimate and illegitimate marketing practices.

Of course, such remedies are only worth pursuing if they can be implemented at a lesser cost than the current system imposes through judicial waste, lost competition, and increased consumer information costs. All agency relationships will impose non-zero costs.[233] This finding does not by itself mean that the relationship

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[230] 15 U.S.C. § 1111 (2014) (noting that "a registrant of a mark registered in the Patent Office[] may give notice that his mark is registered by displaying with the mark the words 'Registered in U.S. Patent and Trademark Office' or 'Reg. U.S. Pat. & Tm. Off.' or the letter R enclosed within a circle, thus (R); and in any suit for infringement under this Act by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered under the provisions of this Act unless the defendant had actual notice of the registration").

[231] *Id.*

[232] *See* U.S. Patent and Trademark Office, *Frequently Asked Questions About Trademarks*, USPTO, *available at* http://www.uspto.gov/faq/trademarks.jsp#_Toc275426681 (last visited Dec. 11, 2014).

[233] Jensen & Meckling, *supra* note 39, at 327.

structure is non-optimal, wasteful, or inefficient, however.[234] Only if these residual costs can be lowered by relatively less costly monitoring or bonding activities would the relationship be non-optimal.

What we should thus consider is that the current state of affairs represents the most efficient legal state. That is, allowing trademark owners leeway to design non-traditional advertising methods gets useful information to consumers in non-disruptive ways, even if it blurs the line between organic speech and paid promotion.[235] Granting authority to brand owners to police non-competitor claims ensures general advertising reliability, even while it imposes costs at the margin in encouraging some strategic behavior and specious claims. We have not yet moved to eradicate ambiguous marketing or frivolous claims through increased monitoring because the costs of such monitoring may exceed the benefits. In other words, these may be agency costs we can live with.

However, this argument is unpersuasive for a variety of reasons. The first reason is that the residual costs imposed by trademark's agency scheme are growing exponentially larger. Trademarks are useful because they are compact and simple ways to communicate a large array of information. The brand owner has the first claim to use a particular symbol in a commercial context. Yet other merchants may make use of the same symbol to make comparisons or references that also offer useful information to consumers. With the advent of the digital economy—through which money can flow among complete strangers with only the click of a few buttons—the importance of compact and easily-understood referents is only more important. Market aggregation sites that allow consumers easily to compare and rate offerings from a variety of different sellers depend on being able to use trademarks accurately to refer to respective products. Not only do consumers use these symbols as shortcuts, but software programmers do also. Computer coding depends on finding the simplest and most efficient method of communicating instructions to a machine. When a trademarked term is input by a user, the program can trigger additional displays that may be useful for the viewer, or confirms that the user is authorized to

[234] *Id.*

[235] *See generally* Zahr Said, *Embedded Advertising and the Venture Consumer*, 89 N.C. L. Rev. 99, 111, 169 (2010) (discussing non-traditional advertising and protection of consumers).

access features of the software.[236] In either case, the computer user does not necessarily even know that the trademarked term has been employed. All of these valuable informative functions of trademarks are endangered by overzealous trademark enforcement.

The second reason is that relatively low-cost solutions exist that can ameliorate some of these problems without much burden. Most of the existing proposals to address sponsorship confusion rely on increased monitoring by agencies or courts that is likely to be costly and ineffective.[237] The appeal of incentive-based remedies is that they are largely self-policing. Properly designed, they induce better behavior by the agent without the need for costly monitoring.[238]

V. Conclusion

This paper argues that the problem of sponsorship confusion is actually a problem of incentives. By providing a standard disclosure metric about paid sponsorship, the government can alleviate coordination problems between advertisers and induce enforcement behavior that is more likely to further—rather than frustrate—the public interest in transparent marketplaces. By linking disclosure obligations to the benefit of increased protection in related markets, the government can rely on advertiser expertise to craft minimally invasive solutions that inform consumers and provide increased leeway for non-confusing comparative uses of trademarks.

More importantly, the example of sponsorship disclosure illustrates pervasive problems of agency within intellectual property regimes. As modern intellectual property rules have streamlined formality, notice, and registration requirements, they have unwittingly

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236 *E.g.*, Autodesk, Inc. v. Dassault Systemes Solidworks Corp., 685 F. Supp. 2d 1001 (N.D. Cal.), *adhered to sub. nom.* Autodesk, Inc. v. Dassault Systemes Solidworks Corp., 685 F. Supp. 2d 1023 (N.D. Cal. 2009) (claiming trademark infringement where competitor copied use of word mark to authenticate unauthorized software).

237 *See supra* note 217.

238 Coffee, *supra* note 211, at 724–25 (arguing that incentive reforms are preferable to judicial monitoring in the derivative lawsuit context for just this reason). *See also* Steven L. Schwarz, *Conflicts and Financial Collapse: The Problem of Secondary-Management Agency Costs*, 26 YALE J. L. REG. 457, 469 (2009) (suggesting that with high-frequency, low-damages agency problems, the optimal solution is likely to be principally self-policing rather than regulatory).

weakened mechanisms that tied owner enforcement authority to increase in the value *to the public* of the information entitlement. Intellectual property regimes seek simultaneously to encourage investment in and dissemination of works of knowledge. More explicit linkage of owner entitlements to adherence to these general goals can harness owner expertise to address long-standing problems of intellectual property over-enforcement.

For a Protected "Right to Use" in Copyright

Thomas M. Byron[1]

I. Introduction

Suggestions that copyright law should be reformulated, reconsidered, or even completely reformed are nothing new. Calls to update the current Copyright Act probably began before the ink first dried on that legislation in 1976, and such requests have certainly become more frequent and strident in the almost four decades since.[2] Such calls for reform spread broadly over the current Act's overgrown landscape. Some would bring back the formerly required formalities of notice and registration for a work to enjoy copyright protection.[3] For those commentators—given many works currently receive

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[2] *See generally* U.S. DEP'T OF COMMERCE INTERNET POLICY TASK FORCE, COPYRIGHT POLICY, CREATIVITY, AND INNOVATION IN THE DIGITAL ECONOMY, *available at* http://www.uspto.gov/news/publications /copyrightgreenpaper.pdf (providing some of the proposals on this topic) [hereinafter GREEN PAPER]; Seth Ericsson, *The Recorded Music Industry and the Emergence of Online Music Distribution: Innovation in the Absence of Copyright (Reform)*, 79 GEO. WASH. L. REV. 1783 (2010-2011); James Gibson, *Once and Future Copyright*, 81 NOTRE DAME L. REV. 167 (2005); Henry Horbaczewski, *Copyright Under Siege: Some Thoughts of a Publisher's Counsel: The Sixth Annual Christopher A. Meyer Memorial Lecture*, 53 J. COPYRIGHT SOC'Y 387 (2006); Jessica Litman, *The Twelfth Annual Honorable Helen Wilson Nies Memorial Lecture in Intellectual Property Law: The Copyright Revision Act of 2026*, 13 MARQUETTE INTELL. PROP. L. REV. 249 (2009); Jessica Litman, *Revising Copyright Law for the Information Age*, 75 OREGON L. REV. 19 (1996); Michael J. Madison, *Rewriting Fair Use and the Future of Copyright Reform*, 23 CARDOZO ARTS & ENTER. L. J. 391 (2005-2006); Maria A. Pallante, *The Next Great Copyright Act*, 36 COLUM. J. L. & ARTS 315 (2013); Pamela Samuelson et al., *The Copyright Principles Project: Directions for Reform*, 25 BERKELEY TECH. L.J. 1175 (2010); Pamela Samuelson, *Preliminary Thoughts on Copyright Reform*, 2007 UTAH L. REV. 551 (2007); John Tehranian, *Infringement Nation: Copyright Reform and the Law/Norm Gap*, 2007 UTAH L. REV. 537 (2007); Hannibal Travis, *Building Universal Libraries: An Agenda for Copyright Reform*, 33 PEPPERDINE L. REV. 761 (2005-2006); Christopher Sprigman, *Reform(aliz)ing Copyright*, 57 STANFORD L. REV. 485 (2004).

[3] *See generally* Sprigman, *supra* note 2.

automatic copyright protection absent any intent to claim such protection by the work's creator—copyright protection should instead only apply when a creator has affirmatively sought out a registration and a copyright notice.[4] Others would predicate copyright protection for software, for example, on the disclosure of the software's source code; since it would be in the interest of broader access to public domain portions of software.[5] Still others would change the doctrine of fair use, ostensibly to bring it in line with socially accepted practices.[6] Even more ambitious projects propose changes—*de fond en comble*—to wide swaths of the current Copyright Act.[7] Both Professor Pamela Samuelson's Copyright Principles Project[8] and the Department of Commerce's recently published paper on Copyright Reform[9] address not only the issues already mentioned in passing, but also note farther-reaching issues, such as the implementation of potential moral rights protections, improvements to the Digital Millennium Copyright Act (DMCA), the treatment of orphan works, the streamlining of music licensing, and many others.[10]

No matter the topic of proposed improvement to the current Copyright Act, the calls for reform seem to be reaching a critical timbre and volume. No one less than the current Register of Copyright herself[11] has begun to imagine the "next great Copyright Act."[12] The Department of Commerce's study noted above suggests willingness from the current administration to think about how wholesale

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[4] *Id*. at 519.

[5] *See* Gibson, *supra* note 2, at 490.

[6] Madison, *supra* note 2, at 173.

[7] *See generally* Samuelson, *supra* note 2. *See also* GREEN PAPER, *supra* note 2.

[8] *See generally* Samuelson, *supra* note 2.

[9] *See also* GREEN PAPER, *supra* note 2.

[10] *Id*. at 29 (describing treatment of orphan works), 56–75 (discussing the DMCA and issues with copyright on the web), 81 (beginning the section on music licensing). Samuelson et al., *supra* note 2, at 1243 (discussing moral rights).

[11] *Maria A. Pallante Appointed Register of Copyrights*, U.S. COPYRIGHT OFFICE, *available at* http://copyright.gov/bios/maria_pallante.html.

[12] *See generally* Pallante, *supra* note 2.

copyright reform might look.[13] In the last year, Congress has conducted increasingly frequent hearings on copyright-related topics, including some on questions as broad as the scope of copyright protection.[14] There is the additional sense that if the average copyright statute in the U.S. has a shelf-life of 40 or 50 years, this Copyright Act is reaching the end of its own.[15] In light of the massive technological changes that have occurred in recent years related to digitization and the Internet, even 40 years might be too long for the current Act's effectiveness.

An argument can be made, however, that wholesale copyright reform is counterproductive, particularly in view of the current Act's reasonable faithfulness to copyright's underlying theoretical structure—the so-called "utilitarian theory" of copyright protection.[16] The utilitarian theory has, at its heart, the Constitutional authorization vesting in Congress the ability to

> promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.[17]

This exclusive right to writings—or other tangibly-embodied creative works—economically incentivizes the creation of such works by allowing the creator of the protected work to control certain uses of

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[13] GREEN PAPER, *supra* note 2, at 3 (positing that the Green Paper "outlines the major issues that are making their way through the courts, merit further attention, or require solutions. With respect to those issues not currently being addressed elsewhere, the paper proposes next steps—some involving potential legislative changes").

[14] Christine Carletta, *Copyright Hearings: Road to Reform or Status Quo*, VANDERBILT JETLAW BLOG (Jan. 20, 2014), http://www.jetlaw.org/2014/02/20/copyright-hearings-road-to-reform-or-status-quo/ (last visited Aug. 16, 2014).

[15] For a timeline of copyright legislative revisions from 1790 to present, *see Copyright Timeline: A History of Copyright in the United States*, ASSOCIATION OF RESEARCH LIBRARIES, *available at* http://www.arl.org/focus-areas/copyright-ip/2486-copyright-timeline#.VIXE38ltRQU.

[16] Mickey Dennis Harney, *Note: Mickey Mousing the Copyright Clause of the U.S. Constitution:* Eldred v. Reno, 27 U. DAYTON L. REV. 291, 308 (Spring 2002).

[17] U.S. CONST., art. I, § 8, cl. 8.

that work.[18] That control can serve as a leverage point to exact fees from those who would consume the creative work in protected ways.[19] The rationale behind copyright, then, is the promotion of creativity. Assuring creators control over their work translates into economic gain when the work is made available to the public.

Authorial control under copyright is not absolute, however. Eventually, the term of copyright protection expires—70 years after the death of the work's author, under the present statute.[20] Once a copyright has expired, the work may be used as part of the public domain. The doctrine of fair use marks another notable limit in a copyright's protection by allowing use of a creator's work under certain circumstances, as with parody of, or commentary on, that original work.[21] But because fair use is not a license for piracy, the doctrine serves the goal of promoting a larger body of creative works by allowing works that build on previous works—while disallowing IP theft that drains the original works of their economic incentives.[22] Copyright is also limited in that it protects only an enumerated set of six rights that tend to give creative works economic value. These rights are:

(1) to reproduce the copyrighted work in copies or phonorecords;

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[18] *See* Harper Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 558 (1985) (quoting that "[b]y establishing a marketable right to the use of one's expression, copyright supplies the economic incentive to create and disseminate ideas").

[19] For a brief description of the public domain, *see* Randal C. Picker, *Access and the Public Domain*, 49 SAN DIEGO L. REV. 1183, 1185–186 (2012). *See also* Jessica Litman, *The Public Domain*, 39 EMORY L. J. 965, 975–76 (1990).

[20] 17 U.S.C. § 302(a) (2012).

[21] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994).

[22] Blanch v. Koons, 467 F.3d 244, 250 (2d Cir. 2006) (quoting "[c]opyright law . . . must address the inevitable tension between the property rights it establishes in creative works, which must be protected up to a point, and the ability of authors, artists, and the rest of us to express them—or ourselves by reference to the works of others, which must be protected up to a point. The fair-use doctrine mediates between the two sets of interests, determining where each set of interests ceases to control").

(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 pictures 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 or other audiovisual work, to display the copyrighted work publicly; and
(6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.[23]

If consumers of a creator's copyrighted work were allowed to exercise these rights in that work, the creator would no longer be able to capitalize on the economic value of the work—a result that can be shown for each enumerated right.

If the public could copy the entirety of a book without the author's permission, no one would need to buy the book after the first purchaser copied it for everyone else. The same result flows from an unauthorized distribution of the original work to the public at large. With a lack of display and performance rights, posters, movies, and sound recordings could be consumed by the public without payment of a fee; even in the absence of an actual copy. The right to prepare derivative works keeps modified versions of the original from usurping the demand for that original. Any rights not enumerated by the statute, however, may be exercised by any consumer of a work.[24] Accordingly, these rights sit outside the economic incentives for the creation of copyrightable content.

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[23] 17 U.S.C. § 106 (2012).

[24] Capitol Records, LLC v. ReDigi Inc., 934 F. Supp. 2d 640, 648 (S.D.N.Y. 2013) (noting that "[t]o state a claim for copyright infringement, a plaintiff must establish that it owns a valid copyright in the work at issue and that the defendant violated one of the exclusive rights the plaintiff holds in the work." By extension, a copyright holder cannot enforce a copyright when no right is implicated).

Though among those aspects of copyright that seem to serve the utilitarian or economic goals of copyright protection, the rights protected by copyright are beginning to look insufficient in preserving economic incentives for authorship. This is particularly true in the more technologically-advanced areas of cloud computing and virtualization.[25] Cloud computing and virtualization allow copyrighted software to be stored on a server and accessed remotely by potentially numerous and dispersed end users.[26] Yet, once this software is copied onto a server or into a virtual machine, its consumption by either the cloud services provider or the end user does not necessarily implicate any of the rights protected by copyright.[27] The software is not distributed—it is not copied, nor modified to create a derivative work; and it is not displayed in its entirety to end users. All that occurs is the making available of the work by the cloud services provider on one hand; and on the other, the access and use of the work by the end user.[28] These actions at the two ends of a wire are not unambiguously within the scope of copyright, despite the contention by some that making a copyrightable work available implicates the protected right to distribute that work.[29]

Yet this seems like the sort of use that the Copyright Act should regulate, since such regulation seems necessary to preserve the economic incentives that drive the creation of the software increasingly hosted in cloud and virtualized settings.[30] To this end, this

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[25] *See infra*.

[26] Peter Mell and Timothy Grance, *The NIST Definition of Cloud Computing*, NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY, at 6, *available at* http://csrc.nist.gov/publications/nistpubs/800-145/SP800-145.pdf (offering the NIST definition of "cloud computing").

[27] Tamara Celine Winegust, *Work With Your Head in the Clouds: The Impact of Cloud Computing and Content Streaming on Copyright in the Entertainment Industry*, 4 INTELLECTUAL PROPERTY BRIEF 8, 15 (2012) (mentioning the lack of distribution or reproduction in the clouds as a means to increase rightsholder control).

[28] *Id*.

[29] *See infra* Parts II, III.

[30] *See Small Business Technology Trends for 2014*, SMARTBUSINESSCOMPUTING.COM, *available at* http://www.smallbusinesscomputing.com/News/Software/small-business-

Article proposes that copyright reform should investigate the inclusion of a new right to use copyrightable works in certain remotely-accessible digital contexts. The Article begins by defining in greater detail the two important technological concepts at issue here—cloud computing and virtualization—before discussing how they implicate, or fail to implicate, the rights currently protected under the Copyright Act. This Article then considers the right to make available and the right to access as two potential means of addressing the lacunae in current copyright law as applied to the cloud and virtualized settings. Such potential solutions prove wanting, however, where a novel right to use can better fill copyright's current technologically-based gap. The Article concludes with an explanation of this prospective right to use, including why the objectives of this right cannot simply be fulfilled by license provisions. As legislators and copyright scholars think more earnestly about copyright reform, this Article tries to serve notice that something is rotten in the state of copyright, and it goes to the doctrine's very core.

II. A Brief History of Protectable Artifacts

In order to understand how the rights protected by copyright might evolve in a copyright reform effort, it is important to appreciate how those rights are reflected in the behaviors of the current technological environment. To fully appreciate this reflection between rights and technology, we have to first observe the evolution of modern technology.

A short history of the artifacts protected by copyright tracks this evolution. Over the first centuries of copyright's existence, its protections gradually expanded to cover new objects that more or less looked like the objects previously eligible for protection. Copyright's initial charge—in its early iteration under the Statute of Anne[31] in the United Kingdom—was to grant authors and publishers "the sole Right and Liberty of Printing . . . Books for the Term of One and twenty Years."[32] The books protected by the original Statute of Anne were

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technology-trends-for-2014.html (hailing 2014 as potentially "the year 'the cloud' [took] over").

[31] Capitol Records, Inc. v. Naxos of America, 830 N.E.2d 250, 254–55 (N.Y. 2005).

[32] Statute of Anne, 8 Anne, c. 19 (1710).

joined by maps and charts in the first U.S. Copyright Act of 1790.[33] In the early twentieth century, the Supreme Court confronted the question of whether piano rolls (the sheets read by player pianos) could be protected under copyright.[34] Although the Court refused them protection on the grounds that the piano rolls were mere "parts of a machine,"[35] the 1909 Copyright Act intervened a year later to grant royalties to composers of piano rolls, and more generally to "all writings of an author."[36] The scope of copyright's protection in the 1909 Act has only widened in its present form under the 1976 Act, which applies to all "original works of authorship fixed in any tangible medium of expression."[37] A "tangible medium of expression" applies not only to the books, maps, charts captured on a sheet of paper, and piano rolls with zigzagging holes to be fed into a player piano, but it also covers the magnetic tape running through now-obsolete cassettes, the pits and valleys encoding zeros and ones on a (soon-to-be, if not already obsolete) DVD or CD, and the transistor gates flipped up or down to capture a piece of software on a computer hard drive.[38]

The artifacts associated with these different copyright-eligible works may look different; but they all share certain fundamental similarities, both in their behavior in commerce and in end user consumption. Someone interested in reading a book or reviewing a map had to acquire a copy of the book from a library, bookstore, or rotating metal rack at a convenience store. If someone else wanted to read the same book or review the same map, that person had to go through the same process of borrowing or purchasing. The second user could, conceivably, get a copy of the desired work from the first

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[33] Copyright Act of 1790, ch. 15, 1 Stat. 124 (repealed 1831).

[34] White-Smith Music Publ'g Co. v. Apollo Co., 209 U.S. 1 (1908).

[35] *See id*. at 18.

[36] Act of March 4, 1909, ch. 320, § 4, 35 Stat. 1075 (repealed 1976).

[37] 17 U.S.C. § 102 (2012).

[38] 17 U.S.C. § 101 (2012) (clarifying that "[a] work is 'fixed' in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." Each of the examples above clearly fits within this definition.).

consumer, but that would come at the expense of the former, who could no longer enjoy the work.[39]

Subject only to the intervention of appropriate machinery, the piano rolls (post-1909), cassette tapes, CD/DVD, and computer hard drives all behave according to the same use in commerce as a book. If you want to hear a specific song on your player piano, you have to buy the piano roll for that song. If someone else wants to hear that song, they need to acquire their own copy, or borrow yours at the cost of your own listening enjoyment. If you cannot accept that cost, then you either keep the piano roll or buy another for your own use during the period you lend your first copy. Music enthusiasts equipped with cassette tape players (likely Phish or Grateful Dead fans, at present) can circulate tapes in a similar way; as can avid movie fans with DVDs as long as they have proper equipment. What becomes clear in this traditional circulation of copyrightable artifacts—be they books, maps, cassette tapes, or DVDs—is a certain "one-to-one ratio" , that one consumer must possess one artifact embodying copyrightable material to enjoy it. With limited exceptions (like reading over someone's shoulder or watching a movie on DVD together, simultaneously), each consumer of traditionally copyrightable material must acquire an artifact copy of that material to enjoy it. This one-to-one ratio secures, in many respects, the economic incentives offered by copyright. If the work of an author, artist, filmmaker, or software developer becomes popular, sales of artifacts embodying that work would follow in direct proportion, leading to more money for the creator.

Copying technology has always threatened to upset this one-to-one ratio, and with it, the economic incentives tied to copyright.[40] Obviously, if the consumer of a work were empowered to copy an original work—either by painstakingly transcribing a book in ink, or

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[39] 17 U.S.C. § 109 (2012) (reflecting the current statutory embodiment of the first sale doctrine, which allows the possessor of a tangible form of a copyrightable work—a book, record, DVD, copy of sheet music, etc.—to dispose of that copy through sale or rental without restriction by the copyright owners).

[40] Am. Geophysical Union v. Texaco Inc., 60 F.3d 913, 920 (2d Cir. 1995) (viewing the issue of photocopying from the perspective of fair use, and finding that Texaco's photocopying of journal articles did not constitute fair use, given the possibility of harm to the market photocopying posed for such journals particularly where the journals were otherwise available for a fee).

more mechanically burning a DVD copy—many more users would be able to take advantage of very few legitimately acquired artifacts. The work's original creator would take a significant hit to the bottom line—an outcome inconsistent with the economic incentives of copyright.[41] In turn, copyright, true to its name, must grant a copyright holder at least a limited right to control the copying and distribution of the copyrighted work. A few other rights, as noted above, joined the rights to control reproduction and distribution, but it is these two rights of copying and distribution that represent a core of copyright protection.

For all the standing on giants' shoulders that everyone from Bernard de Chartres to Newton to Bill Gates has done, technology (inasmuch as it relates to copyright) has seen a truly disruptive break in the last decade.[42] The one-to-one logic that long prevailed in the relation between user and copyrightable artifact is threatening to be turned on its head by two critical, intertwined technological developments: cloud computing and virtualization.

III. Cloud Computing and Virtualization

A decade ago, the expression "cloud computing" would have been foreign to almost everyone.[43] Now, just about every tech-savvy person (and even some less-savvy luddites) can instinctively leverage cloud-based programs and storage. These programs help upload pictures to Facebook;[44] they stream songs from online services like Pandora;[45] they even run applications on Amazon's popular EC2 cloud

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[41] Campbell, 510 U.S. at 590 (discussing the requirement that courts consider, as part of the fourth fair use factor, whether a copyright defendant's behavior would harm potential markets, if widespread. This is precisely the rationale at issue here.).

[42] *See generally* MATTHEW PORTNOY, VIRTUALIZATION ESSENTIALS (2012).

[43] *See id.* at 14.

[44] *See* Joanna Stern, *What is the 'Cloud'?*, ABC NEWS, June 26, 2012, *available at* http://abcnews.go.com/Technology/cloud-computing-storage-explained/story?id=16647561.

[45] *Id. See also* Jonathan Strickland, *How Music Clouds Work*, HOW STUFF WORKS, *available at* http://computer.howstuffworks.com/cloud-computing/music-cloud1.htm (last visited Dec. 8, 2014).

services.[46] Defining the term "cloud computing" has proven somewhat more challenging than using it, however. Two commentators gathered a set of definitions offered by certain industry players.[47] According to Gartner, Inc.,

> [c]loud computing is a style of computing where massively scalable IT-related capabilities are provided 'as a service' across the Internet to multiple external customers.[48]

Forrester Research proposes the following as a definition of cloud computing:

> A pool of abstracted, highly scalable, and managed infrastructure capable of hosting end-customer applications and billed by consumption;[49]

while IBM offers:

> [a]n emerging computing paradigm where data and services reside in massively scalable data centers and can be ubiquitously accessed from any connected devices over the [I]nternet.[50]

Although these definitions all highlight slightly different aspects of cloud computing, certain points of commonality are raised. All three definitions notably treat the cloud as a computing service made available remotely via an Internet connection. Implicitly packed into the concept of a service offering is the cloud's on-demand and scalable

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46 Joab Jackson, *How Netflix survived the Amazon EC2 reboot*, PC WORLD, Oct. 3, 2014, *available at* http://www.pcworld.com/article/2691772/how-netflix-survived-the-amazon-ec2-reboot.html (noting how EC2 hosts the popular service, Netflix, for example).

47 Massimo Cafaro & Giovanni Aloisio, *Grids, Clouds, and Virtualization*, *in* GRIDS, CLOUDS AND VIRTUALIZATION 7 (Massimo Cafaro & Giovanni Aloisio eds., 2011).

48 *Id.*

49 *Id.*

50 *Id.*

nature, given that the cloud awaits the contact of its remote users and in principle offers them as much computing power as they need.[51] These aspects of cloud computing all conform to the real-world examples already offered. In the case of Facebook, users leverage an Internet connection to interact with on-demand remote messaging and storage services. The same goes for Pandora, where streaming music is the primary on-demand service made available by the cloud. In Amazon's case, it is computing time and power on a machine that remains remotely available. By providing remotely accessible resources, cloud services like these have helped to unlock the potential of popular devices like smartphones and tablets by allowing devices to rely on resources located far beyond their compact plastic containers. That leads to smaller devices that consume less energy without sacrificing performance.[52]

The divergent points in definitions of cloud computing suggest other possible, but perhaps unnecessary, attributes of cloud computing. For example, cloud computing services are typically hosted in data centers, and may be offered to users in exchange for a fee.[53] Neither Pandora nor Facebook currently charges a direct fee for their base-level services, while Amazon's EC2 cloud service does.[54] Cloud services can also be made available to any cross-section of external users, from the public at large to a more limited set of users; such as those associated with a single institution.[55] Each of the three example

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[51] Mell & Grance, *supra* note 26, at 2 (noting that the cloud provides an "ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services)").

[52] Other factors contribute to the effectiveness of smartphones and tablets, of course. One is Moore's Law, which predicts a doubling in the processing speed and storage capabilities of the same size microchip or storage device every 18 months. This law of exponential improvement in computing, propounded several decades ago, has more or less held true until present day. *See* PORTNOY, *supra* note 42, at 7.

[53] *See* Cafaro & Aloisio, *supra* note 47 (noting the Forrester definition).

[54] *Amazon EC2 Pricing*, AMAZON.COM, *available at* http://aws.amazon.com/ec2/pricing/.

[55] *See id*. (stating that anyone can sign up for the service, just as almost anyone can get a Facebook account). *See also* Center for Advanced Computing, *Red Cloud*, CORNELL UNIVERSITY, *available at* https://www.cac.cornell.edu/redcloud/ (providing an example of services only available to institutional researchers). Mell & Grance, *supra* note 26, at 3 (defining four types of clouds consistent with the previously mentioned categories).

uses of cloud computing provided here is accessible to some broad percentage of the Internet-connected public.

In practice, cloud computing services are provided in one of three models: 1) software as a service; 2) platform as a service; and 3) infrastructure as a service.[56] Distinguishing these models is the degree to which they require input from the end user (or the end user's IT department) to function. Software as a service requires no input from an end user; it is simply, as its name suggests, software made available in the cloud for the end user's consumption.[57] The applications ("apps") that provide Facebook users an outlet to very effectively waste time are one example of software as a service.[58] The Facebook member uses his or her own device as a portal to access software that runs remotely on Facebook's servers.[59] Those digital bits that a Facebook user sows, weeds, and reaps in the popular game FarmVille are not just removed from the activities of real farmers; they are also removed from the user's own computer.[60] A platform as a service requires a greater degree of end-user input to function, as the service provided is somewhat less comprehensive when compared to the software as a service model.[61] In a platform as a service model, the cloud services provider offers a "platform for the creation of software, delivered over the web."[62] Such a platform enables the cloud's users to

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[56] *See* Brian Kepes, *Understanding the Cloud Computing Stack: SaaS, PaaS, IaaS*, RACKSPACE SUPPORT, Oct. 22, 2013, http://www.rackspace.com/knowledge_center/whitepaper/understanding-the-cloud-computing-stack-saas-paas-iaas.

[57] Cafaro & Aloisio, *supra* note 47, at 7.

[58] *FarmVille*, FACEBOOK, *available at* https://www.facebook.com/FarmVille (providing users an option to "Play Now on Facebook," which means playing on a server in the cloud).

[59] *See id*.

[60] *See* Charles Babcock, *Lessons from FarmVille: How Zynga Uses the Cloud*, INFORMATIONWEEK, May 4, 2011, *available at* http://www.informationweek.com/it-leadership/lessons-from-farmville-how-zynga-uses-the-cloud/d/d-id/1097546? (last visited Dec. 8, 2014).

[61] Mell & Grance, *supra* note 26, at 2–3 (noting that the "consumer . . . has control over the deployed applications and possibly configuration settings" in this environment).

[62] *See* Kepes, *supra* note 56.

create software to run on the platform.[63] Amazon EC2 is one example of such a platform as a service provider. This platform provides users both the cloud hardware and the necessary tools whereby such users can create their own Amazon Machine Images ("AMIs") to run on the Amazon platform.[64] The third cloud services model, infrastructure as a service, goes one step beyond platform as a service in that it does not even offer a platform for the cloud users to leverage.[65] Rather, infrastructure as a service offers little more than the hardware: the "servers, storage, network and operating systems[66]" at the base of a cloud offering.[67] It falls to the user, or the user's administrator, to provide the software that might run on the infrastructure provider's machines.[68]

Often underpinning each of these cloud computing options is the concept of virtualization.[69] This latter concept, though over fifty years removed from its origin, has only more recently witnessed actual adoption technologically.[70] If the name "virtualization" conjures images of virtual reality, the comparison is not inapposite. Virtualization creates a sort of virtual reality experienced by computers, as it is defined by "the abstraction of some physical component into a logical object;"[71] the movement from a physical to a more abstract reality.[72] In practice, the change from physical

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[63] *Id*.

[64] Cafaro & Aloisio, *supra* note 47, at 12–13.

[65] *See* Kepes, *supra* note 56.

[66] *Id*.

[67] *Id*.

[68] Mell & Grance, *supra* note 26, at 3.

[69] PORTNOY, *supra* note 42, at xv (referring to this as the "foundation" of cloud computing); Cafaro & Aloisio, *supra* note 47, at 10 (referring to this as a "key enabler" of cloud computing).

[70] Evangelos Kotsovinos, *Virtualization: Blessing or Curse?*, 54 COMMC'NS OF THE ACM 61, 62 (2011).

[71] PORTNOY, *supra* note 42, at 2.

[72] *Id*.

component to logical object fundamentally alters the way servers work.[73] Where a pre-virtualization server directly ran a single operating system or program to be accessed by a remote user, the server leveraging virtualization hosts a large number of "virtual machines," or packages of data files that enable many different operating systems and applications to run on the same server.[74]

As Internet services are offered on a larger scale, the effect of this change becomes more evident. In the pre-virtualization world, a data center contained a set of servers that each performed a fixed set of functions and ran a predetermined set of programs that could be accessed by remote end users.[75] If a data center wished to maintain its current functionality while adding new functionality or programs to its services, the data center would be compelled to purchase and configure new servers to perform such functionality and run such programs.[76] This meant adding a potentially exponentially increasing number of servers to provide services to keep pace with end user demand. With more servers came an expenditure of more electrical power and a need for more physical space.[77]

Virtualization mitigates these issues by converting the servers in a data center into a "pool of easily consumable resources."[78] No longer are servers tied to the programs and operating systems that are installed on them; they are now equipped to run any software or

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[73] *Id*. at 9.

[74] *Id*. *See also* Kotsovinos, *supra* note 70, at 62 (explaining that "the principle that the hard disk is local, and therefore reading from and writing to it is fast and low cost. Thus, they use the disk generously in a number of ways, such as caching, buffering, and logging. This, of course, is perfectly fair in a nonvirtualized world. With virtualization added to the mix, many such assumptions are turned on their heads. VMs [or Virtual Machines] often use shared storage, instead of local disks, to take advantage of high availability and load-balancing solutions—a VM with its data on the local disk is a lot more difficult to migrate, and doomed if the local disk fails").

[75] PORTNOY, *supra* note 42, at 35 (discussing the limits on pre-VM servers).

[76] *Id*. at 4–6.

[77] *Id*.

[78] *Id*. at 14.

operating system properly packaged into a virtual machine.[79] Managing the interaction between the virtual machines, on one hand, and the physical components, on the other, is a piece of "middleware;" often in the form of software, known as a hypervisor.[80] The hypervisor runs on top of the physical servers and other hardware divorced of specific functionality.[81] The hypervisor allows virtual machines to "see and work with" these now-fungible computing resources.[82] No longer are specific servers earmarked for specific functions; they are now all available for use by different virtual machines running different software—thanks to the intervention of the hypervisor.[83]

The servers are not the only modular part of this digital ecosystem:

> [v]irtual machines can be cloned, upgraded, and even moved from place to place, without ever having to disrupt the user applications.[84]

Further, by shifting software technology and upgrades to the domain of virtual machines, the servers themselves no longer have to be upgraded to reflect advances in the virtual machine's software.[85] Nor do their numbers (and associated energy expenditures) have to increase to accommodate new functionality.[86] Yet as energy and resources are saved, accessibility for end users leveraging virtual

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[79] *Id*. at 35.

[80] *Id*. at 21 (referring to a hypervisor as "layer of software that lives in between the hardware . . . and the virtual machines that it supports").

[81] PORTNOY, *supra* note 42, at 19–21.

[82] *Id*. at 15.

[83] *Id*. at 37–38 (explaining what a hypervisor does: "the hypervisor underneath presents the virtual machines with generic resources to which they connect").

[84] *Id*. at 15.

[85] *Id*. at 11.

[86] *See id*. at 35 (showing that the new functionality is an offshoot of the ability to run multiple operating systems and applications on a single server in a virtual environment).

machines is still able to improve.[87] In view of this substantial shift in data center resource deployment, virtualization can properly be seen as

> a disruptive technology, shattering the status quo of how physical computers are handled, services are delivered, and budgets are allocated.[88]

The growing sophistication and adoption of cloud computing and virtualization marks a sea change in the way that humans interact with artifacts embodying intellectual property. Prior to these technological developments, software and computer systems still behaved in ways largely indistinguishable from the piano rolls and associated player piano that copyright law has long been able to manage.[89] In the pre-Internet era of the 1980's, and even in the World Wide Web era of the 1990's, the growing popularity of personal computers drove growing popularity for the programs that ran on those computers.[90] The average user who wanted to benefit from this new software—say, by playing "Crystalis" or "Where in the World is Carmen Sandiego?" on her PC—would need to acquire a copy of the game in question to load into her PC's hard drive. This copy could come in the form of an executable to be downloaded from the early Internet, or a set of physical media such as floppy disks or CDs to insert into the computer. The result of this process was a new copyright-protected copy of the software on the user's computer that would perform its desired function on the computer,[91] just as the copy of a piano roll could perform its desired function within the traditional

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[87] PORTNOY, *supra* note 42, at 9–11.

[88] *Id.* at 1.

[89] *See generally* Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240 (3d Cir. 1983) (providing an example of a case showing that software has long been subject to copyright protection).

[90] *See Computer and Computer Software Stores, SIC 5734 Industry Report*, HIGHBEAM BUSINESS, *available at:* http://business.highbeam.com/industry-reports/retail/computer-computer-software-stores.

[91] *See generally* Apple, 714 F.2d 1240 (finding that software is protectable under copyright, one of the protected rights under Section 106 of the Copyright Act, and that such protection would be exercised when traditional software was copied onto a local hard drive).

player piano. Software activation technologies intervened in an attempt to limit use of the same media for installation on multiple computers, rendering the physical media a back-up copy in case of damage to the PC's inner workings.[92] Even if activation technology had not intervened, the installation of software on another user's computer without a license was still unauthorized copying long addressed by copyright in the cases of books and music.[93]

Cloud computing and virtualization mark a rupture with the traditional model under which the users of software, listeners of music, readers of books, and even consumers of piano rolls generally need to acquire (or legitimately borrow) a copy of a work in order to enjoy it legally. Copyrightable content in a cloud-based, virtualized environment does not necessarily move, and indeed, is not managed in the same way as prior technologies. Software is no longer always copied or distributed to a local machine; it can run solely in the cloud and may be accessed through a thin client on the end user's device.[94] Once the software is copied onto a server in the cloud, the cloud services provider makes the software available to end users, and the end user is able to use the software.

Certain aspects of virtualization take additional steps away from activities traditionally protected by copyright. With virtualization, not every user has to possess her own copy of a virtual machine.[95] Virtualization enables, by contrast, "fewer [virtual machine] images that are shared among hundreds of people."[96] Even if each virtual machine user must access a specific virtual machine at a given moment, running two sessions from the same virtual machine is

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[92] *See, e.g.*, U.S. Patent No. 7,725,396 (filed Apr. 19, 2006); U.S. Patent No. 7,565,323 (filed Sept. 23, 2003) (posing two examples of how activation may be implemented).

[93] *See* 17 U.S.C. § 106(1) (2012).

[94] Shun-ling Chen, *To Surpass or Conform – What are Public Licenses For*, 2009 U. ILL. J.L. TECH. & POL'Y 107, 133, n. 156 (highlighting the change in the mechanism by which software is available, which traces a rift between two forms of the General Public License—the standard GPL and the Affero GPL. The former does not apply to cases where software is only made available for use on the cloud; the latter fills this lacuna).

[95] PORTNOY, *supra* note 42, at 16.

[96] *Id*.

possible. Further, users who are accessing the same service provider are leveraging the same hypervisor at the same time.[97] In many of these cloud-based and virtualized scenarios, "copies" of software are made available to, and used by, end users dispersed throughout the world.[98] The number of copies, however, is not proportional to the number of users, and no actual distribution to the users takes place.[99] Gone is the one-to-one ratio between a traditional copyrightable artifact and a user; it has been replaced by flexible libraries of fungible resources, checked in and out on demand, instantaneously. In some cases, the same resource is simultaneously made available to users around the world.[100]

For all of this availability of copyrightable content and software, and for all of the users relying on numerically fewer physical copies of that content and software, few (if any) rights protected by copyright law are triggered by these activities—from the perspective of either the end user or the cloud and virtualization service providers. The hypervisor serves everyone simultaneously without being reproduced, distributed, or displayed.[101] The software and content provided as services are copied and displayed, but the copies are less numerous than the sheer number of users; the display only reaches that part of the protected software passed through a client to the end user, which can represent a small percentage in comparison to potentially thousands or millions of lines of source code making up the work at large. Under these circumstances, software and content owners cannot effectively leverage copyright protections. This may not present a problem if the same party designs the hypervisor, manages the servers, and generates all the content in the virtual machines. But what if, as

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[97] *See id*. at 26.

[98] *See* Cafaro & Aloisio, *supra* note 47 (noting the IBM definition, which uses the word "ubiquitous" when describing access provided by the cloud); Mell & Grance, *supra* note 26.

[99] *See supra* notes 42, 94.

[100] This would occur if two users leveraged yet another aspect of virtualization–the virtual desktop–to connect to the same machine.

[101] PORTNOY, *supra* note 42, at 24–25 (explaining the functionality of the hypervisor—functionality that is fulfilled on the server where it runs, not on the end user's device).

happens often in the modern digital economy, the party that licenses the content and software in virtual machines is not the same party providing the servers or designing the hypervisor? What will protect the economic incentives of creation if one copy of a developer's software can be consumed by end users around the world without a second copy being made? How can copyright reform close these loopholes? This Article will attempt to answer these questions.

IV. The Making Available Right and the Access Right as Possible Answers to Modern Technology

Currently floating in the scholarly and judicial ether are two potential legal rights that might allow authors and content owners to address the limits of copyright law in the cloud and virtual contexts: 1) a "making available right;" and 2) a "right to access." These two potential rights focus on the two parties at opposite ends of the wire in a cloud context. At one end are the cloud service providers who serve copyrightable content and manage the virtual machines, and at the other end are the users who access that content and those machines through the cloud. The making available right predominately affects the cloud services provider, as it proposes that an author or creator control the right to make his or her work available in both digital and other contexts. It is in such other contexts, in fact, that this right has gained some judicial traction.[102]

In *Hotaling v. Church of Jesus Christ of Latter-Day Saints*,[103] the Fourth Circuit confronted the unauthorized copying of the plaintiff's book by the Mormon Church.[104] Although the plaintiff requested that the Church cease copying or circulating her book, she later found the book in the Church's libraries in Utah and Rhode Island.[105] Because there was sufficient delay in the initiation of legal

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[102] *See* Hotaling v. Church of Jesus Christ of Latter-Day Saints, 118 F.3d 199 (4th Cir. 1997) (holding that when a library registered a book in its system, the book was distributed or made available within the meaning of § 106(3) of the Copyright Act). *But see* Nat'l Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc., 991 F.2d 426 (8th Cir. 1993) (holding in part that distribution requires an actual transaction).

[103] 118 F.3d 199 (4th Cir. 1997).

[104] *Id*. at 201.

[105] *Id*. at 202.

action, the plaintiff could no longer claim infringement of her reproduction right arising out of the Church's initial copying of the work.[106] She instead relied on her right to distribute her book by way of the libraries maintaining a copy of her work in their collections.[107]

There was no evidence of record that either of the libraries had actually distributed a copy of the plaintiff's book to their patrons, so the court faced the question of whether the mere act of making the plaintiff's work available to the public constituted an infringing "distribution" within the meaning of the Copyright Act.[108] The court answered this question in the affirmative, holding that:

> When a public library adds a work to its collection, lists the work in its index or catalog system, and makes the work available to the borrowing or browsing public, it has completed all the steps necessary for distribution to the public. At that point, members of the public can visit the library and use the work. Were this not to be considered distribution within the meaning of § 106(3), a copyright holder would be prejudiced by a library that does not keep records of public use, and the library would unjustly profit by its own omission.[109]

Therefore, the plaintiff stated a cause of action sufficient to overcome the defendant's motion to dismiss.[110] For purposes of copyright law, the court's statement enlarged the right to distribution under the Copyright Act to encompass actions that fall short of an *actual* distribution of a copyrighted work.[111]

Merely making the work available for public consumption sufficed to trigger a protected distribution in the *Hotaling* case.

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[106] *Id.*

[107] *Id.* at 203.

[108] *Id.* at 201, 205 (discussing, in the dissenting opinion, the definition of distribution in greater detail, as worded under 17 U.S.C. § 106(3) (2012)).

[109] Hotaling, 118 F.3d at 203.

[110] *Id.* at 204–05 (reversing the district court's dismissal of the suit).

[111] *Id.* at 204.

Although the court's language was limited to a library setting, there is no meaningful factual distinction between making a book available for in-person consumption in a library reading room and making a book or other work available for digital consumption on a cloud. If anything, cloud consumption seems more wrongful due to the geographically unlimited scope of accessibility to users of a peer-to-peer network—as compared to a library, whose books are only available to those who are within the immediate geographic area. Rightsholders have latched onto this distinction when arguing for infringement of their distribution right when their works are made available online.

The Fourth Circuit's widened reading of the right to distribute—any act that makes a work available—has its endorsements. The argument has been a particular favorite of record companies cracking down on users making unauthorized songs available on peer-to-peer networks.[112] These proponents have reinforced the Fourth Circuit's policy-based argument with more direct reliance on the language of the Copyright Act.[113] The Act defines the term "publication" to include both the "distribution" of copyright-protected works and the

> offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public performance, or public display.[114]

As such, proponents of reading the Fourth Circuit decision into the Copyright Act contend that the right to distribute should be read to encompass all forms of distribution that fit the definition of publication.[115] That, in turn, would stretch the definition of distribution

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[112] *See, e.g.*, London-Sire Records, Inc. v. Doe 1, 542 F. Supp. 2d 153, 177 (D. Mass. 2008) (granting two motions to quash in a request for expedited discovery); Capitol Records, Inc. v. Thomas, 579 F. Supp. 2d 1210, 1223–224 (D. Minn. 2008) (vacating a verdict against defendant due to improper jury instructions); Elektra Entm't Grp., Inc. v. Barker, 551 F. Supp. 2d 234, 240 (S.D.N.Y. 2008) (denying defendant's motion to dismiss; granting plaintiff's leave to amend their complaint); Atl. Recording Corp. v. Howell, 554 F. Supp. 2d 976, 982 (D. Ariz. 2008) (denying plaintiffs' motion for summary judgment).

[113] London-Sire Records, Inc., 542 F. Supp. 2d at 167–69.

[114] 17 U.S.C. § 101 (2014).

[115] *See, e.g.*, Capitol Records, Inc., 579 F. Supp. 2d at 1216–218.

to encompass "offering to distribute" a work, better known as the making available right.[116]

Two other considerations are offered in support of this statutory reading. One is the doctrine of *Charming Betsy*,[117] taken from a case holding that federal legislation should be construed, if possible, in a manner consistent with international obligations.[118] With regard to copyright law, because the U.S. acceded to two WIPO treaties requiring protection of a right to make a copyrightable work available,[119] U.S. statutory law should be construed to contain such a right, if possible. This argument centers on the statutory definition of publication cited above, which includes both distribution and an offer to distribute.[120] This appears to be a plausible path to bringing the current Copyright Act in line with U.S. treaty obligations. Legislative intent also supports the current existence of a making available right.[121] After a deep dive into the documents informing the development of the current Copyright Act, Professor Peter Menell suggests that Congress intended to implement a making available right.[122]

However, if the *Hotaling* decision created a breach for subsequent cases to recognize a right to make copyrightable works available, later courts have not availed themselves of the opening.[123] The holding in *Hotaling* does not cite anything other than a vague policy concern that libraries should not be able to avoid infringement of the distribution right by offering a book for distribution to patrons

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[116] Thomas D. Sydnor II, *The Making-Available Right Under U.S. Law*, 16 PROGRESS ON POINT 1 (2009), *available at* http://ssrn.com/abstract=1367886 (last visited Jan. 9, 2015).

[117] *Id*. at 8.

[118] Murray v. The Charming Betsy, 6 U.S. (1 Cranch) 64, 118 (1804).

[119] Sydnor, *supra* note 116, at 11.

[120] *Id*. at 8.

[121] *See generally* Peter S. Menell, *In Search of Copyright's Lost Ark: Interpreting the Right to Distribute in the Internet Age*, 59 J. COPYRIGHT SOC'Y U.S. 1, 67 (2011).

[122] *Id*.

[123] *See supra* note 112 (offering several examples of courts declining to find the making available right in the current U.S. Copyright Act).

and failing to keep records when the book is actually distributed to such patrons.[124] Further, the *Hotaling* decision does not address the Copyright Act's language in any detail.[125] Rather than following the Fourth Circuit's lead, many courts have followed a diametrically opposed tack—rejecting the *Hotaling* court's making available right in favor of a pure statutory reading, interpreting the distribution right to require an actual distribution by the would-be infringer.[126] This view was traditionally supported by two of the more authoritative copyright treatises.[127] Although a making available right would likely be viewed more favorably if it can be seen to exist already within the Copyright Act, there is no consensus that this is in fact the case.

Whether the making available right already exists under the Copyright Act should not obscure an analysis of the right on its own merits, particularly insofar as the right potentially addresses new technological configurations like the cloud and virtualization. A strong making available right offers certain advantages over the traditional battery of rights protected by copyright. Although the *Hotaling* case failed to consider the language of the Copyright Act in any detail, it still managed to set out a reasonable definition of the making available right.[128] In the traditional library context, making available would occur when

> a public library adds a work to its collection, lists the work in its index or catalog system, and makes the work available to the borrowing or browsing public.[129]

Once the library has taken all steps necessary to prepare a work for public consumption, then the library has triggered the hypothetical

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[124] Hotaling, 118 F.3d at 203.

[125] *Id*. (mentioning the statute to a limited extent in Part III of its discussion, but devoting little more than a paragraph to an underdeveloped discussion).

[126] *See generally* London-Sire Records, Inc., 542 F. Supp. 2d; Capitol Records, Inc., 579 F. Supp. 2d; Atl. Recording Corp., 554 F. Supp. 2d.

[127] *See* 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.11 (2011); 2 PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT § 7.5.1 (3d ed. 2009).

[128] Hotaling, 118 F.3d at 203.

[129] *Id*.

right to make that work available—if the public need only show up to read the book.[130] As cases brought by record companies for peer-to-peer music sharing demonstrate, the understanding of the making available right ports easily into many "uses" cases in a modern digital context.[131] In a case involving peer-to-peer transactions, a user allowing his or her music file to be accessed and downloaded by other users of the peer-to-peer network has made that work available in copyright terms.[132] An application served for end use in the cloud, in either virtualized or "real" form, would seem to fit equally well within this understanding of the making available right. If the cloud services provider installs the software on a server or packages it in a virtual machine, then allows third parties to consume it, the cloud services provider's actions are analogous to the actions of the library in *Hotaling*.

Bringing the provision of cloud-based applications within the ambit of a making available right would seem to address some of the loopholes in current copyright doctrine that threaten to erode copyright's economic incentives. As noted above, merely making a virtual machine or cloud-based application available for use by an end user does not effectively trigger rights protected by copyright. The software, once on the server or in the virtual machine, may not necessarily be reproduced. It is not distributed in any meaningful way to the end user, as the bits making up the software tend to remain in the cloud (running on top of a hypervisor) or directly on servers. The software is not necessarily modified,[133] nor is it displayed in any meaningful way to the end user.[134] As the end user only interacts with the software through a client GUI (or "Graphical User Interface"), only potentially minimal portions of the application or virtual machine

[130] *Id.*

[131] *See, e.g.*, London-Sire Records, Inc., 542 F. Supp. 2d at 177; Capitol Records, Inc., 579 F. Supp. 2d at 1223–224; Elektra Entm't Grp., Inc., 551 F. Supp. 2d at 240; Atl. Recording Corp., 554 F. Supp. 2d at 982.

[132] London-Sire Records, Inc., 542 F. Supp. 2d at 177.

[133] One can receive packaged virtual machines that one does not need to modify, but can use as constructed.

[134] *See* PORTNOY, *supra* note 42, at 24–25 (describing the functionality of the hypervisor–software that an end user does not see).

are actually displayed. At the same time, if a cloud services provider can make a third party's software available to its end users without paying a fee for the right to make the software available, the economic incentives would diminish for those developers who make the software or are thinking of creating subsequently hosted software options. Further, this situation leads to an apparent distinction without a difference: traditionally downloadable software that happens to be distributed to end users triggers copyright protections, while software made available for the exact same use but in a cloud setting does not.[135] A making available right could help rectify this inconsistent application of copyright law to software, while still maintaining economic incentives for developers to create in this cutting-edge domain where more production is highly desirable.

If the making available right is necessary to cover use cases that should be economically incentivized, there remains a question as to whether this prospective right will be sufficient to protect such economic incentives. A few issues plague its potential effectiveness, however. First, the scope of the right is not yet well defined in the U.S. for lack of adoption.[136] Parts of a cloud-based application or aspects of a virtual machine that can be accessed and manipulated by an end user would fall within the scope of the right.[137] But would the aspects of the virtual machine or cloud ecosystem not directly accessed by the end user fall within this right? A hypervisor performs an important role in enabling a virtual machine to be used remotely, but it remains in the bowels of the cloud; never really accessible for direct use by the end user.[138] It could be argued that such pieces of software that merely facilitate cloud and virtual transactions are not "made available" within the making available right. Yet these pieces of

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[135] This is not to say that cloud-hosted software is not eligible for copyright protection, but that use in the cloud may not implicate any of the Section 106 rights, and accordingly, may not trigger an infringement of copyright.

[136] While the *Hotaling* case stands for some form of a making available right, I have noted that other courts have declined to follow this lead. This means that there is little case law on the prospective right's metes and bounds.

[137] This result follows from similarities between the text of the book made available to readers in *Hotaling* and the content of the software made available to users in a cloud context. Hotaling, 118 F.3d at 203.

[138] *See* PORTNOY, *supra* note 42, at 37–38 (noting that the hypervisor lives "underneath," not accessible to a typical end user of a cloud like EC2).

software, operating "under the covers," are critical to each cloud use case as the software component actually made available to the end user.[139] If a making available right is to be implemented, economic incentives for creation should not only favor creators whose work happens to interface directly with end users, but it should also protect the contributions of creative developers whose work does not necessarily show up in a GUI on end users' screens.

Another issue related to the scope of a making available right involves how to handle a single piece of software made available to two users simultaneously without being copied.[140] If we presume a hypervisor falls within the scope of the making available right, that piece of software is available, in only one copy, to everyone running the virtualized environment at the same time.[141] A similar issue could occur when the same software is used in multiple simultaneous sessions.[142] If "making available" is limited to one copy made available to one user at one time—as was the case in *Hotaling*'s library transaction—then the making available right may not be sufficiently broad. Software made available to multiple users at once, without a need for additional actual copies, would seem to merit greater protection than software made available to one person at one time.[143] Yet, in this scenario, only one work has been "made available," to the work's sizable consuming user pool and only one instance of infringement has occurred. This seems counter to copyright's economic incentives, which should better promote and reward more popular uses by compensating the creator in proportion with the many end users enjoying a work, and not in lockstep with the single cloud

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[139] In the absence of a hypervisor, the virtual machine would not work, and the software that it contains could not be served to the end user.

[140] *See supra* note 100 for an example of this use case.

[141] *See supra* note 100 for an example of this use case.

[142] *See* GREEN PAPER, *supra* note 2, at 29, 56–75, 81. Samuelson et al., *supra* note 2, at 1243.

[143] In theory, people can read a book together, or one person can read over another's shoulder, but this situation is severely limited by the physical constraints on visibility of an artifact. Serving the same software to thousands of people around the world at once, without copying it for each of these thousands of people, raises more serious copyright concerns.

services provider.[144] This choice of focus between end user and services provider teases out a final concern with a potential making available right.

The making available right focuses on the actions of only one half of the digital ecosystem: the cloud or virtualization services provider. The user, at the other end of the wire, effectively triggers no rights protected by copyright by merely using the work made available.[145] Yet, these end users are the active participants in the digital consumption of copyrightable material in the cloud and virtualized environments. Users are appropriate targets for regulation to ensure that creators reap the economic benefits provided to other copyright holders in non-cloud contexts.[146] The making available right, though a worthy addition to a future copyright act, might not be the best tool to bring copyright protection fully in line with the current state of technology.

Professor Jane Ginsburg suggests taking the making available right one step farther. She suggests focusing on the author's ability to control the "right to access" under Section 1201 of the Copyright Act.[147] Section 1201 addresses this concept as part of the implementation of the DMCA, which makes it unlawful to "circumvent a technological measure that effectively controls access" to a copyright-protected work.[148] The right to access a work, as contemplated by this provision, is a more limited proposition; insofar as it only applies to electronic works protected by digital rights

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[144] As noted above, the traditional "one-to-one" ratio between consumers and works ensures that more popular works will enable the rightsholder to recoup greater license fees than the rightsholder of a less popular, but similarly priced, work in the same class.

[145] A typical individual end user will not make the work available to further end users, and thus would not need a license for that right.

[146] Users are already regulated like anyone else through their exercise of the Section 106 rights with regard to books, movies, and all of the other traditional artifacts highlighted throughout this article.

[147] Jane C. Ginsburg, *From Having Copies to Experiencing Works: The Development of an Access Right in U.S. Copyright Law*, 50 J. COPYRIGHT SOC'Y U.S. 113, 116 (2003).

[148] 17 U.S.C. § 1201(a)(1)(A) (2014).

management ("DRM").[149] Electronic works not secured by DRM are outside the provision's scope, as are more traditional works still embodied in hard-copy media like books, newspapers, sheets of music, architectural plans, among others.[150] However, Professor Ginsburg urges broader application of the right to access, unmoored from its statutory anchoring.[151]

Ginsburg's interpretation of this right to access is not a question of the presence or absence of digital rights management in the electronic context. Rather, the right to access would mean

> [t]he right to control the manner in which members of the public apprehend the work. The concept is distinct from reproduction or communication to the public to the extent that I may communicate a copy of my work to the user's hard drive, or the user may purchase a digital copy such as a CD ROM, but the user may not 'open' the work to apprehend (listen to, view) its contents, unless the user acquires the 'key' to the work.[152]

Ginsburg's article is prescient in that she roots the need for this right in the same policy concerns articulated herein—specifically, the fundamental change in the interaction between humans and the

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[149] *Id. See also* 17 U.S.C. § 1201(a)(3)(A), (B) (2014) (stating that "to 'circumvent a technological measure' means to descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass, remove, deactivate, or impair a technological measure, without the authority of the copyright owner"; and a technological measure as effectively controlling access to a work "if the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work"). For an example of how DRM works in real life, *see* M. Scott Boone, *The Past, Present and Future of Computing and its Impact on Digital Rights Management*, 2008 MICH. ST. L. REV. 413, 429 (2008) (describing Microsoft's DRM controls on the use of a modified Xbox).

[150] 17 U.S.C. § 1201(a)(1)(A), a(3)(A), (B) (2014) describing how the DRM typically turns on decryption or deactivation of a technological measure, and accordingly does not apply to a book on the shelf of a library).

[151] Ginsburg, *supra* note 147, at 131.

[152] *Id*. at 120.

artifacts embodying intellectual property.[153] She is all too aware that the transition to an Internet and digitally driven world signals a transition away from the traditional physical media that has embodied intellectual property in recent decades.[154] Consumers of copyrightable works are no longer driven by the "possessive and tactile" aspects of opening a book or leafing through the liner notes for an old album while putting it on a turntable or in a CD player.[155] Now, book and music connoisseurs enjoy their favorite novels and songs instantaneously by accessing hosted versions of the content online.

For Ginsburg, it is the moment of initial access to a copyrighted work that matters most.[156] This makes sense as accessing a work is one of the only ways a user meaningfully interacts with it. Accessing a work no longer requires one to download a copy or have it distributed; nor must users perform or display it when using it in the privacy of their homes.[157] Initial access presents a critical opportunity for regulation. If a content creator's hosted work is not used in copyright-protected ways through typical consumption, a right to access might ensure that the creators of such content are still able to enjoy economic incentives for their hosted works. It is precisely upon access that a modern digital work is disseminated. In the case of software running in the cloud, distribution and reproduction are, for the most part, no longer implicated.[158] The importance of access is accordingly not limited to music or books; it applies equally to cloud-based applications and virtual machines. So conceived, this broadly applicable, user-centric access concept addresses the fault in the making available right: the fact that it only reaches the service

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[153] *Id.* at 115–16.

[154] *Id.*

[155] *Id.* at 115. Borders bookstore, like Tower Records before it, appears to have been a casualty of the movement away from material artifacts. *Books without Borders*, THE NEW YORKER, July 19, 2011, *available at* http://www.newyorker.com/books/page-turner/books-without-borders.

[156] *Id.* at 115–16 (describing the "author's ability to control access as [becoming] critical," and "the access right is an integral part of copyright").

[157] *See* 17 U.S.C. § 106 (2014) (noting the requirement that the display or performance occur "publicly").

[158] *See supra* notes 94–101.

provider. If many users access a copyrighted work, each user would implicate that work's right to access protections. Such is a far cry from the single act of a service provider making that same work available.

While Ginsburg's proposed right to access seems to be a well-reasoned option for preserving the economic incentives of copyright in a modern technological setting, it does not quite address all of the problems left in the making available right's wake. Some of the very same questions that plague the scope of the work made available apply *mutatis mutandi* to the work being accessed. Again, the infrastructure and platform software that facilitate access to a book or song may not themselves be made available—within the meaning of a making available right—by a cloud services provider to the end user. Such software also remains potentially outside the scope of access by the user at any point in the digital transaction, at least where a right to access is broadly conceived.[159] It could be argued that the user only directly accesses certain delimited content—the book or song, for example—and that access to any other software and services is incidental, indirect, and not clearly enabled for the user. It is difficult to see how the user can always be sure to have been granted rights to access a potentially significant variety of software and service offerings incidental to an act of access to a hosted music file or book. But again, those incidental aspects of the process implicate their own creativity that merits copyright protection.[160]

The right to access raises additional practical concerns related to the right's timing and seeming secrecy-informed structure. First, consider how a right to access interacts with the other rights protected by copyright. Once a user has a copy of a work, the exercise of traditional copyrights, when licensed, all occur during the time of possession. The properly licensed possessor of a work can copy, modify, display, perform, and distribute the work at any given moment. Even later distribution would not exhaust the rights that

[159] This turns on the difficult question of whether a user is actually accessing the infrastructure—the hypervisor, for instance—that facilitates a digital transaction. It could be argued that such access does not occur, and that the user is only accessing the streaming music or video actually transmitted to the end user.

[160] *See* Oracle America, Inc. v. Google, Inc., 750 F.3d 1339 (Fed. Cir. 2014) (providing a recent example of the minimal requirements of copyrightability imposed by *Feist*, as articulated in the software context).

could vest in another tangible copy of the same intellectual property. In other words, if I have the right to reproduce and distribute a work, I can exercise those rights in that order, and still have a copy to exercise those licensed rights again. A right to access temporally alters this state of affairs, at least initially, because if the user wishes to exercise any of the rights (to reproduce, modify, distribute, etc.) linked to the same moment of possession, the user must first have a right to access those other rights. In many cases, one cannot *copy* a work without accessing it; one cannot *modify* a work without accessing it; one cannot *perform* a work without accessing it; one cannot *display* a work without accessing it; and so on. The right to access thus inherently becomes the sort of uber-right that Ginsburg feared would creep up under Section 1201;[161] a right on which all other copyright-protected rights would depend. It is not clear that copyright should be structured according to such a hierarchy, where failure to grant the right to access in a license would be fatal to the exercise of other licensed rights.[162]

The preliminary placement of a potential right to access could create additional problems. It is tautological to say that you must get a right to access something before you can access it. Such a tautology does highlight a timing complication, though. One wonders if installation of a piece of software protected by the right to access could be initiated without some preliminary agreement granting the user such an access right. In other words, the very installation of software seems to be a form of access to that software, for which a license would need to be granted before other rights could be granted.[163] This could be worked out technologically, in all likelihood, but it potentially doubles the number of click-through software license agreements (or "SLAs") that users already hate encountering.[164] The

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[161] Ginsburg, *supra* note 147, at 131.

[162] *See* Oddo v. Ries, 743 F.2d 630, 634 (9th Cir. 1984) (declining to find that implied licensing would adequately fill a breach in actual licensing).

[163] Ginsburg, *supra* note 147, at 120 (seeing this occurring through distribution of a "key" that would enable access, and presumably thereby grant an implied license to exercise the access right).

[164] As rights under the Copyright Act have to be licensed, then the right to access should not be an exception. While implied non-exclusive licensing might suffice here, intellectual property owners will undoubtedly wish to regulate a licensee's exercise of the right to access, just as they do in the case of other rights. This will mean additional terms, but at a different point in time.

final consequence of this right to access is the conversion of copyright into an odd trade secret hybrid, whereby copyrightable works are entitled to secrecy in the absence of a license to access the work. The implications arising out of such an instance are complicated and best left to another article, but it suffices to say that copyright seems an inappropriate avenue to doubly secure the doors guarded by trade secret.

V. The Argument for a "Right to Use"

In the face of the problems posed by the prospective making available and access rights under copyright, I propose a third path: a right to control use in certain limited cases. The right would work to empower content owners to keep end users from using the content owners' copyrightable material. The right's use would cover a broad range of actions taken when consuming intellectual property. Typical use would occur when an end user manipulates software to produce a result, but use would also occur in less active consumption of intellectual property. The latter scenario would take place when someone uses a song by listening to it, uses a book by reading it, or uses a movie by viewing it. In order to use copyrighted content in this way, an end user would require the grant of a license from the content owner. Because each end user would require a license, the traditional ratio favoring one copy of a work for one consumer (or one license for one software user, etc.) would thereby be restored in the modern digital context. Such restoration would duplicate economic incentives for creators currently threatened with obliteration by copyright loopholes.

At first blush, this right seems broad, but it would have a couple of key limits. First, it would not apply to copyrightable material embodied in traditional artifacts, such as books, tangible records, piano rolls, or even software installed from physical media. It has been shown that those artifacts can be adequately protected by the current battery of rights to control reproduction, distribution, and the like.[165] Second, it would not apply to in-person consumption of publicly performed or displayed works, like plays or museum exhibits. The right to use would be limited to modern digital contexts like the cloud and virtualization, where the traditional rights protected by

[165] *See supra* Part II.

copyright no longer secure an economic incentive for creators. Ultimately what erodes this economic incentive is the possibility of remotely serving software to many users simultaneously without otherwise triggering any protection under the current copyright act. The critical trigger point for this new right would be the use of digital content by legally and geographically distinct end users. There would be no need for the software to be actually copied for each of these distinct users. Further, the right would not apply to *de minimis* uses of intellectual property. An accidental click causing a virtual machine to fire up, a song to play, or a video to stream would not infringe upon the right to use that content, provided that the user ceases access expeditiously; perhaps by immediately closing a browser in which a song begins playing. The purported infringer could also avoid liability for committing infringement by making an affirmative showing that he or she did not actually use the work. This degree of elaboration should ensure that the right only applies to a certain class of technologically-enabled use, without interfering with traditional uses of copyrightable content.

The prospective right to use addresses the issues presented by the right to access already discussed. Rather than focusing on the preliminary point of access for an end user, the user—solely subjected to the right to use licensing requirement—would be permitted to access a work just as that user is permitted under current copyright law. This would obviate the legion issues raised by the mistiming of the right to access. No longer would one right control subsequent rights. A right to use would instead sit alongside the rights to distribute, reproduce, distribute, etc., which all can be exercised during the same point of possession if properly licensed. No longer would copyrightable material potentially require two click-through licenses, nor would copyright potentially duplicate trade secret under certain circumstances.[166]

While the right to use would supplant a right to access, it would be intended as a supplement to a making available right. It has

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[166] It is possible that the exercise of a right to access will reach the same activity as trade secret law, in that an initial access to commercially valuable information that is not publicly known would implicate both trade secret protection and the hypothetical right to access a copyrighted work. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974) (addressing the question as to whether patent law preempts trade secret law, answering in the negative). The confluence of a right to access and the protection of trade secrets could raise similar preemption questions. A copyright-based right to access could, in any event, be redundant to trade secret protection.

been noted that the latter right does a fairly good job regulating the conduct of one-half of the digital ecosystem: that of the cloud and virtualization services provider.[167] The right to use merely addresses the issues with its making available counterpart, the end user. First, the right to use speaks to this other half of the ecosystem that is currently neglected by the making available right. Second, it clarifies some issues related to the scope of the making available right. It is not clear whether a hypervisor (or other software incidentally made available to end users) actually falls within the making available right. However, a hypervisor would fall into a right to use because a right to use could encompass all software actually leveraged by the end user to run a cloud-based application or a virtual machine.

A few potential concerns with a right to use may be parried in passing. One such concern would follow from the place of licensing, which has come to address the right to use outside of copyright law.[168] Whether open source or proprietary in nature, the typical software licensing agreement currently grants a right to use the relevant software, and sometimes nothing more.[169] If licensing already manages the right to use, introducing a protected copyright on the topic would appear duplicative. Appearances are deceiving, however, as breach of license (or contract) comes with both procedures and remedies distinct

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[167] *See supra* notes 94–101.

[168] This follows from two conditions: 1) the right to use is not among the enumerated rights in section 106 of the Copyright Act, so it is not a copyright-protected activity; and 2) as explained above, software proprietors regularly control the right to use through licensing, outside of copyright.

[169] Open source examples include the MIT license, which states that "[p]ermission is hereby granted, free of charge, to any person obtaining a copy of this software and associated documentation files (the "Software"), to deal in the Software without restriction, including without limitation the rights to use, copy, modify, merge, publish, distribute, sublicense, and/or sell copies of the Software…"); and the BSD license, which permits "[r]edistribution and use in source and binary forms, with or without modification . . . " *See The MIT License*, OPEN SOURCE INITIATIVE, *available at* opensource.org/licenses/MIT; *The BSD 2-Clause License*, OPEN SOURCE INITIATIVE, *available at* opensource.org/licenses/BSD-2-Clause. Examples of proprietary licenses granting a right to use are too numerous to name. For just one example, *see Adobe Acrobat SDK Software License Agreement*, ADOBE SYSTEMS, *available at* http://wwwimages.adobe.com/www.adobe.com/content/dam/Adobe/en/legal/licenses-terms/pdf/Adobe%20Acrobat%20SDK%20Software%20License%20Agreement.pdf.

from those in a copyright case.[170] Where a *copyright* claim confers federal question jurisdiction[171] sufficient to bring litigants into federal court, a breach of *license* only triggers federal jurisdiction if the amount in controversy and diversity of citizenship requirements are met.[172] More critically, the statutory damages available in copyright law, ranging from $750 to $30,000 per work infringed,[173] have a far better chance of making the aggrieved creator whole when multiplied over the many users of server-based software than do the more limited damages of the profit from a single license fee that would likely remedy the same server-based use of software under breach of contract.[174]

Fair use should similarly not pose a concern for a prospective right to use because that doctrine would apply as it does to the currently enumerated rights. Instead of excusing reproductions, distributions, or modifications of a copyrighted work when the four-factor fair use test so requires, fair use would excuse "uses" of copyrighted works when the four-factor test requires.[175] Fair use would simply apply to an additional right—in this case, a right to use. The word "use" shared in "right to use" and "fair use" is mere coincidence. If fair use were called "fair reproduction," but defined as it is now, it would behave as it does now. There is not all that much in the doctrine's name, at least not in the word following "fair."

Some may contend that controlling a right to use copyrightable content allows copyright to meddle in a place where it has never

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170 Omri Ben-Shahar, *Damages for Unlicensed Use*, (University of Chicago Law School John M. Olin Law & Economic Working Paper No. 534, 2010) *available at* http://www.law.uchicago.edu/files/file/534-obs-damages.pdf.

171 28 U.S.C. § 1331 (2014).

172 28 U.S.C. § 1332 (2014).

173 17 U.S.C. § 504(c)(1) (2014) (showing that the figures cited above apply generally, but in cases of willful infringement, the damages can reach amounts of up to $150,000).

174 Ben-Shahar, *supra* note 170 (explaining that licensors can only expect to recover a lost profit from a sale in the contract context, which would track to the profit from a single license fee).

175 17 U.S.C. § 107 (2012) (defining a "fair use" as "not an infringement of copyright" according to a four-factor test).

before meddled. That statement may be factually correct, as copyright does not typically address the simple use of intellectual property unaccompanied by behavior that triggers an enumerated copyright.[176] But as Ginsburg well noted, we should not obsess over retaining two-hundred-year-old classifications embedded in copyright law, particularly when those classifications are no longer well-tailored to current modes of dissemination and use of intellectual property.[177] Further, the right here would not control *how* an end-user consumes the copyrightable content through use. It would not inquire whether a reader finds a book good for reading or good for kindling; whether an exercise enthusiast finds a song fit for warm-up or cool-down; or whether a philosopher finds a movie an object of truth or the subject of disdain. By contrast, the right to use would regulate the fact that an end user consumes copyrightable content through use; a supplementary right for any purpose not protected by fair use or another exception to copyright.[178]

As copyright reform casts a progressively inkier shadow on the legislative horizon, we should embrace it as an opportunity to re-

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[176] *See* Nat'l Car Rental Sys., Inc., 991 F.2d at 432 (8th Cir. 1993) (holding that "a use of an authorized copy of copyrighted subject matter ordinarily is not infringing. . . Therefore, applicable limitations on [the] use of the programs [here], if any, must be derived initially from the license agreements, not copyright law").

[177] *See* Ginsburg, *supra* note 147, at 122.

[178] If that fact makes "use" look like access, it does so because theoretically, the two actions can happen at points very near in time. It should be noted that many protected works can be accessed without being used. Software is accessed when a virtual machine is loaded; it is only used once the end user is actually manipulating it through a client. PORTNOY, *supra* note 42, at 44 (stating that "[v]irtual machines exist as two physical entities: the files that make up the configuration of the virtual machines and the instantiation in memory that makes up a running VM once it has been started. In many ways, working with a running virtual machine is very similar to working with an actual physical server. Like a physical server, you can interact with it through some type of network connection to load, manage, and monitor the environment or the various applications that the server supports"). By extension, as with a server, a user can start a VM without interacting with it. The user can access it without meaningfully using it. Such use and access occurring simultaneously on occasion does not make them synonymous, however. Limits proposed here for *de minimis* or accidental uses, and accesses that do not in fact lead to use, create an even larger disjointed set of accesses to copyrightable material that would not also qualify as uses. This non-overlapping set commends a right to use further by not punishing as infringing an accidental or minimal access that does not erode copyright's economic incentives.

imagine copyright law in a way that serves the justifications informing protection, rather than holding fast to antiquated categories of protected activity.[179] Here, as always,[180] the primary justification for copyright is the promotion of creativity through the implementation of economic incentives. If a massive group of digitally-enabled users, flung to the four winds, can simultaneously access, leverage, and consume the same content without requiring the exercise of any right currently protected by copyright, then copyright has fallen out of step with the current state of technology. Simply put, the modern analog to traditionally licensable activities no longer requires licensing by rightsholders. With fewer opportunities to license, authors and developers will have less and less economic motivation to generate the creative material which forms the virtual machines and hypervisors hosted in clouds around the world. Such diminished motivation will come with an accompanying cost, not just to the stock of creative work available to the public, but also to the advancement of technology as a viable platform for creative output. If copyright reform is to be taken seriously in the coming years, it must bring the rights protected by copyright back in line with the present state and future direction of cloud-based and virtualization technology.

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[179] Ginsburg, *supra* note 147, at 122.

[180] *See supra* note 18.

Toward a New Jurisprudence of Copyright Exemptions

Guy Pessach*

I. Introduction

Discussions over the next copyright reform are gaining increasing attention from policy makers, the academy, and public advocacy.[1] Copyright exemptions are a focal point of these discussions, and much of the emphasis is on revisiting particular exemptions through the lens of both technological developments and substantive considerations.[2] Personal uses, digital preservation, access to knowledge, and promoting the capacities of people with disabilities are just some of the issues that are being raised in the context of mobilizing copyright exemptions.[3]

My purpose in this essay is to add another dimension, thus far neglected, to the discourse over the future of copyright exemptions. Rather than focusing on particular vertical issues, I offer three horizontal structural principles that should guide legislators and courts in the design of copyright exemptions: (a) *in rem* exclusivity; (b)

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[1] *See* The Register's Call for Updates to U.S. Copyright Law: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet, of the H. Comm. on the Judiciary, 113th Cong. (2013) (statement of Maria A. Pallante, Register of Copyrights); Maria A. Pallante, *The Next Great Copyright Act*, 36 COLUM. J.L. & ARTS 315, 321 (2013), *available at* http://www.copyright.gov/docs/next_great_copyright_act.pdf [hereinafter, The Next Great Copyright Act]. *See generally* JASON MAZZONE, COPYFRAUD AND OTHER ABUSES OF INTELLECTUAL PROPERTY (2011); WILLIAM PATRY, HOW TO FIX COPYRIGHT (Oxford Univ. Press, Inc. ed., 2011). *See also* Jessica Litman, *Real Copyright Reform*, 96 IOWA L. REV. 1, 7 (2010); Pamela Samuelson, *Members of the CPP, The Copyright Principles Project: Directions for Reform*, 25 BERKLEY TECH. L.J. 1175, 1183 (2010) [hereinafter Samuelson, The Copyright Principles Project]; Pamela Samuelson, *Preliminary Thoughts on Copyright Reform*, 551 UTAH L. REV. 551, 556 (2007).

[2] *See* Pallante, *supra* note 1, at 322–26; Litman, *supra* note 1, at 48–49; Samuelson, *The Copyright Principles Project*, *supra* note 1, at 1176.

[3] *See supra* note 2.

reciprocity; and (c) adjustment according to institutional attributes.

According to the element of *in rem exclusivity*,[4] copyright exemptions should be structured as *in rem* exclusive rights: legal entitlements that prohibit all people, other than the user (the beneficiary of the exemption), from interfering with a permitted use, unless an authorization from the user is obtained.[5] A permitted use, within copyright law, should imply a duty bestowed upon the rest of the world not to take actions that restrict such a use. Users' privileged uses imply a positive right for these uses, including the right to prevent others from intervening or imposing conflicting restrictions on such uses. This right could not be abridged without prior authorization from all relevant users. Its infringement would justify injunctive and monetary remedies, just like copyright infringement. The *in rem* right to exclude, within copyright law, thus becomes dual, in that it applies both to copyright owners and to users. Consider the example of technological protection measures that override the fair-use defense[6] while restricting lawful secondary uses, or the example of technological protection measures that restrict lawful reproduction of copyrighted works for preservation purposes by libraries or archives.[7] According to the principle of *in rem* exclusivity, such actions should be prohibited and classified as an infringement of users' rights to engage in certain actions with regard to copyrighted works. Such actions may also justify remedies of injunction and monetary damages.

Under the element of reciprocity, copyright exemptions should

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[4] *See infra* Part II.

[5] *See, e.g.*, Thomas W. Merrill & Henry E. Smith, *The Property/Contract Interface*, 101 COLUM. L. REV. 773, 783 (2011) (offering a definition of *in rem* rights as rights that are characterized by: "(1) … both an indefinite class of dutyholders and by large numbers of dutyholders; (2) in rem rights are not simply aggregations of in personam rights but are qualitatively different in that they attach to persons through their relationship to particular things rather than as persons; (3) in rem rights are numerous and indefinite in two directions - not only does each in rem right give rise to a large and indefinite number of dutyholders, but also each dutyholder holds such duties to a large and indefinite number of rightholders; and (4) in rem rights are always claims to abstentions by others as opposed to claims to performances on the part of others").

[6] *See* 17 U.S.C. § 107 (1976).

[7] *See, e.g.*, 17 U.S.C. § 108 (2005) (acknowledging an exemption regarding reproduction, for preservation purposes, is being made by libraries and archives).

be reciprocal. Users' reliance on copyright exemptions should be conditioned upon a reciprocal duty not to prevent other people (e.g., subsequent third-party users) from using a secondary work (e.g., the work that finds shelter under a copyright exemption) in a manner, and for purposes similar to, the ones for which the originating secondary user claimed for a copyright exemption. This duty should apply also with regard to technological protection measures, or contractual terms, which such secondary users attempt to impose.[8] For example, fair use beneficiaries should be obliged to treat alike subsequent third parties who wish to access and use copyrighted materials of these beneficiaries for similar subsequent uses. Illustrated further, if Google's Book Project's reproductions of entire copyrighted works for archiving and retrieval purposes are considered fair use, then a similar exemption should apply to the benefit of future third parties who wish to use, for similar purposes and in similar manners, copyrighted works from Google's databases and applications.[9]

Finally, in accordance with the principle of adjustment to institutional attributes, when crafting, interpreting, and applying copyright exemptions, legislators and courts should consider also the institutional attributes of both the copyright owner and the user at stake.[10] In appropriate circumstances, the breadth of a copyright exemption may expand based on the institutional attributes of either the user or the copyright owner. Thus, for example, not-for-profit cultural institutions, such as museums or research institutions, may benefit from preferential treatment when applying for a copyright exemption. Yet, at the same time, regarding their own copyrighted materials, not-for-profit institutions may be subordinated to higher scrutiny in terms of their ability to enforce their own copyrights against subsequent third parties, who may attempt to rely on a copyright exemption.

The purpose of this essay is to sketch a preliminary outline of the above-mentioned principles. The proposed principles are intended to function as horizontal elements that are applicable to all copyright

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[8] *See infra* Part III.

[9] *See* Authors Guild, Inc. v. Google Inc., 954 F. Supp. 2d 282, 293–94 (S.D.N.Y. 2013).

[10] *See infra* Part IV.

exemptions as such. These principles are not intended to substitute the substance and particulars of specific copyright exemptions. Similarly, these principles do not attempt either to reflect or codify contemporary jurisprudence of copyright exemptions.[11] Rather, these are three novel, yet inconclusive, proposals that aim to design copyright exemptions in structures that improve the effectiveness of copyright law in fulfilling its constitutional imperative to promote creativity.[12] By focusing and developing the form and structure of copyright exemptions, I seek to assist in closing the gap between the growing scholarship on users' rights[13] and the more limited scholarship on the legal formulation of users' rights.

II. Copyright Exemptions as *In Rem* Exclusive Rights

Copyright exemptions define users' entitlements. Users' entitlements cover instances in which the use of a copyrighted work does not require authorization from or payment of consideration to a

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[11] The literature on the jurisprudence of copyright exemptions is vast. For three seminal articles, *see* William W. Fisher III, *Reconstructing The Fair Use Doctrine*, 101 HARV. L. REV. 1661, 1668 (1988) (formulating the fair use defense through prominent economic, liberal, and moral philosophic theories); Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1605 (1982) (using economic analysis and characterizing copyright exemptions as a mechanism to overcome market failures); Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990) (developing the category of transformative uses as the main incident in which secondary uses should be classified as authorized fair use).

[12] *See, e.g.*, Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 575 (1994); Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 349–50 (1991) (quoting the U.S. Constitution's Intellectual Property Clause, U.S. CONST. art. I, § 8, cl. 8, which proclaims the clause's social-public purpose: "[t]o promote the Progress of Science and useful Arts").

[13] *See* Julie E. Cohen, *Creativity and Culture in Copyright Theory*, 40 U.C. DAVIS L. REV. 1151 (2007) [hereinafter Cohen I]; Julie E. Cohen, *The Place of the User in Copyright Law*, 74 FORDHAM L. REV. 347 (2005) [hereinafter Cohen II]; Dan Hunter & F. Gregory Lastowka, *Amateur-to-Amateur*, 46 WM. & MARY L. REV. 951 (2004); Jessica Litman, *Lawful Personal Use*, 85 TEX. L. REV. 1871 (2007); Joseph P. Liu, *Copyright Law's Theory of the Consumer*, 44 B.C. L. REV. 397 (2003).

copyright owner.[14] Currently, the nature of copyright exemptions is not clearly defined, but the closest legal framework seems to be that of a privilege.[15] Users benefit from a legal state under which they have the privilege to engage in a certain act—the exempted use.[16] Thus, copyright owners benefit from a *right*: a legal claim one possesses to require or prevent a certain act by another.[17] Copyright owners' entitlements are *in rem* exclusive property rights to do and authorize certain uses of copyrighted works. Otherwise phrased, owners have the right to exclude the rest of the world from utilizing their copyrighted works for uses that fall within their bundle of exclusive uses.[18]

This disparity between the legal structure of copyright owners' entitlements and the legal structure of users' entitlements tends to be taken for granted. However, I respectfully beg to differ. I argue that reasons (similar to the ones that underlie copyright protection) that justify users' entitlements (i.e., copyright's exemptions) imply that users' entitlements should also be structured as *in rem* exclusive rights. A permitted use, within copyright law, should impose a duty on the rest of the world to not act in ways that restrict or interfere with such a

[14] *See* Campbell, 510 U.S. at 590; Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 561 (1985) (classifying fair use as an affirmative defense for what would otherwise be an infringing act).

[15] *See* Campbell, 510 U.S. at 590; Harper & Row Publishers, Inc., 471 U.S. at 561.

[16] *Id*.

[17] *See* Wesley Newcomb Hohfeld, *Fundamental Legal Conceptions as Applied in Judicial Reasoning*, 26 YALE L. J. 710, 718 (1917) (defining right *in rem* as "availing respectively against persons constituting a very large and indefinite class of people"). *See also* Wesley Newcomb Hohfeld, *Some Fundamental Legal Conceptions as Applied in Judicial Reasoning*, 23 YALE L. J. 16, 30 (1913).

[18] *See* 17 U.S.C. § 106(4) (2002) (defining copyright owners' bundle of exclusive rights: "Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following…"); Copyright, Designs and Patents Act, 1988, ch. 1 §§ 1–2 (U.K.) (defining copyright as a "property right" that provides the copyright owners with "the exclusive right to do the acts specified in Chapter II as the acts restricted by the copyright in a work of that description"). *See generally* Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 HARV. J.L. & PUB. POL'Y 108 (1990).

use exempted under copyright law.[19] Users' privileged uses should imply a positive right, including the right to prevent others from intervening or imposing conflicting restrictions on such uses. This right may not be abridged without prior authorization from all relevant users, and its infringement would justify injunctive and monetary remedies, just like copyright infringement.[20] The *in rem* right to exclude, within copyright law, thus becomes dual; it applies both to copyright owners and to users.

Consider the example of a technological protection measure that overrides the fair use defense, while restricting legitimate reproduction and quotation of digital images, or audiovisual works, for criticism and research purposes.[21] According to my proposal, such an action would be prohibited and reclassified as an infringement of a user's right. Moreover, it may justify remedies of injunction and monetary damages. Similar scenarios may arise in the context of notice and takedown procedures, which remove non-infringing secondary uses of copyrighted works from content-sharing platforms;[22] or in the context of copyright fraud, which concerns attempts to claim

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[19] *See* Merrill & Smith, *supra* note 5, at 783–86 (breaking the notion of *in rem* legal relations into elements of numerosity and indefiniteness of duty holders).

[20] *See* 17 U.S.C. §§ 502–504 (acknowledging injunctive and monetary remedies as remedies for copyright infringement).

[21] *See*, *e.g.*, Yochai Benkler, *From Consumers to Users: Shifting the Deeper Structures of Regulation Towards Sustainable Commons and User Access*, 52 FED. COMM. L.J. 561, 571 (2000) (giving the example of "a ten-year-old girl doing her homework on the history of the Holocaust. Her multimedia paper includes a clip from *Schindler's List*, in which Oscar Schindler looks over the town and sees a little girl, in red, the only color image on the screen, walking through the pandemonium. In her paper, the child superimposes her own face over that of the girl in the film. The paper is entitled "*My Grandmother*." Benkler discusses this example in relation to scenarios in which technological protection measures are imposed on digital copies of copyrighted works, including with regard to legitimate fair use purposes such as the above-mentioned).

[22] *See* Jeffrey Cobia, Note, *The Digital Millennium Copyright Act Takedown Notice Procedures: Misuses, Abuses, and Shortcomings of the Process*, 10 MINN. J.L. SCI. & TECH. 387, 397 (surveying instances in which the notice and take down procedures were misused by rights holders and third parties beyond legitimate attempts to take down infringing materials).

fictitious copyright over works in the public domain.[23] In such scenarios, imposing impediments on users' entitlements may justify remedies against the violation of their *in rem* exclusion rights in order to engage in certain conducts with regard to copyrighted creative works.

To a considerable degree, the justifications for structuring copyright's exemptions as exclusion rights, mirror economic justifications for copyright protection. Copyright protection derives from several intertwined economic justifications, which focus on the nature of intangible creative works as non-excludable and non-rivalrous goods.[24] Copyright's artificial exclusivity attempts to: (a) overcome the free-riding problem by providing an economic incentive to invest in the production of intangible creative works, thus mitigating creators' risk that their investment would be ripped off by free-riding third parties;[25] (b) internalize positive externalities and social value

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[23] *See* Jason Mazzone, *Copyfraud*, 81 N.Y.U. L. REV. 1026, 1052–058 (2006).

[24] *See generally* Robert Hurt & Robert Schuchman, *The Economic Rationale of Copyright*, 56:2 AM. ECON. REV. 421 (1965 Proceedings) (1966); Arnold Plant, *The Economic Aspects of Copyright in Books*, 1 ECONOMICA 167 (1934) (providing early thought on the subject). *See also* William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 17 J. LEGAL STUDIES 325 (1989) (having been regarded as the first comprehensive economic analysis of copyright law). *See* DAVID THROSBY, ECONOMICS AND CULTURE 23–26 (2001) (providing that a good has public aspects to the extent that it embodies two characteristics: jointness of supply and non-excludability. Jointness of supply concerns the cost function of the good and the degree to which its consumption is non-rivalrous. In the extreme case, the marginal production costs may be zero. Therefore, adding more users would not detract from the benefits enjoyed by others. Non-excludability exists when it is impossible or impractical to prevent certain people from using the good. These features make the supply of public goods through the market mechanism unfeasible or extremely suboptimal).

[25] *See*, *e.g.*, Wendy J. Gordon, *Asymmetric Market Failure and Prisoner's Dilemma in Intellectual Property*, 17 U. DAYTON L. REV. 853, 855 (1992) (analyzing the incentive argument as a prisoner's dilemma in which players simultaneously have to choose between creating a work of their own and copying the work of another. For a plausible payoff structure, copying strictly dominates creation and the result is the Pareto-dominated equilibrium that is associated with prisoner's dilemma games. In this case, both players choose to copy and nothing is created. Copyright solves this non-excludability problem and escapes the prisoner's dilemma by giving authors legally enforceable property rights to exclude others from using their works without consent (or at least without paying)).

which is vested in creative works;[26] and (c) deter third parties from unconsented utilization of intangible creative works. This orthodoxy of *in rem* property attributes is subjected to persuasive internal and external critiques. The internal critique focuses on copyright's social cost and negative spillovers. Copyright burdens and increases the costs of accessing and utilizing copyrighted materials for further creative activity.[27] The external critique questions whether proprietary protection is indeed required to incentivize creative activity, and whether it is the optimal mechanism for doing so, particularly if one considers its disadvantages and negative aspects.[28] The discourse regarding copyright's desirability is well addressed[29] and I do not wish to repeat it within this essay. Yet, the point to be emphasized is the following: from a societal perspective, there is no difference between copyright owners and users of copyrighted works in terms of their confrontation with circumstances that discourage them from investing resources in socially-valued creative activity and cultural engagements.

For initial creators, it is the risk of a third party free-riding on their investment that confronts them in carrying out their interests and

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[26] *See* Jeffrey L. Harrison, *A Positive Externalities Approach to Copyright Law: Theory and Application*, 13 J. INTELL. PROP. L. 1, 5–6 (2005).

[27] *See, e.g.*, Landes & Posner, *supra* note 24, at 332–41; Glynn S. Lunney, Jr., *Reexamining Copyright's Incentives-Access Paradigm*, 49 VAND. L. REV. 483, 496–97 (1996).

[28] *See* Diane Leenheer Zimmerman, *Copyrights as Incentives: Did We Just Imagine That?*, 12 THEORETICAL INQUIRIES L. 29, 34–42 (2011) (surveying literature that questions whether proprietary protection is indeed required in order to incentivize creative activity and whether it is the optimal mechanism, particularly if one considers its disadvantages and negative aspects). *See also* Amy Kapczynski, *The Cost of Price: Why and How to Get Beyond Intellectual Property Internalism*, 59 UCLA L. REV. 970, 975–77 (2012) (discussing and critiquing "IP internalism:" the notion that property-like systems are necessary or optimal ways to motivate creative production).

[29] *See* Kapczynski, *supra* note 28, at 975–77; Zimmerman, *supra* note 28, at 34–42. *See also* Rochelle Cooper Dreyfuss, *Does IP Need IP? Accommodating Intellectual Production Outside the Intellectual Property Paradigm*, 31 CARDOZO L. REV. 1437, 1439 (2010); Kal Raustiala & Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 VA. L. REV. 1687, 1689 (2006).

protecting their copyrighted works. For users and secondary creators, it is the burdens, barriers, and costs they confront when attempting to access and use copyrighted works for eligible authorized uses. Thus, while copyright owners and other third parties are ignorant of the social costs (and negative externalities) that they impose in such circumstances—through self-interest restrictions—on legitimate authorized uses of copyrighted works.

The lines that delineate the boundaries between copyright owners' exclusive uses and users' rights function, therefore, as pointers of two distinct zones. The first zone is one in which social value is best captured by copyright owners; that is, by the grant of certain exclusive *in rem* transferable rights to creators and producers of cultural works. The second zone is one in which social value is best captured by enabling, for certain purposes, free access and free utilization of cultural works. Capturing this social value requires legal rules that prohibit interference with users' ability to access and use cultural works. In other words, this second zone comprises a reverse exclusion regime much like that which encompasses copyright owners' exclusive rights, but from a reverse position.

The above-mentioned conceptualization relies on aspects similar to the ones that focus on property rights' role in internalizing externalities (both positive and negative) that are associated with the utilization of a resource.[30] Nevertheless, I argue that overall, and particularly due to the intangibleness of copyrighted works, an *in rem* right to exclude may and should be assigned not only to copyright owners, but also to users' entitlements (of access and utilization) regarding copyrighted works.

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[30] *See* RONALD H. COASE, THE FIRM, THE MARKET, AND THE LAW 12–24 (1988) (introducing the notions of transaction costs and externalities to property theory by focusing on their role in determining the initial allocation of entitlements); Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089, 1089–093 (1972) (devising a menu of protecting legal entitlements, consisting of inalienability rule protection, property rule protection, and liability rule protection. Entitlements protected by an inalienability rule may not be transferred even with the consent of the owner. Those entitlements protected by a property rule may be transferred by the owner at a price to which the owner agrees. As for entitlements protected by a liability rule, they may be taken by third parties in exchange for the payment of a price determined by the third party; the owner has no veto power, and must suffice herself with the compensation she receives. Calabresi and Melamed also focused on the prominent role that externalities and transaction costs have in determining the

The goals of structuring copyright *exemptions* as *in rem* exclusion rights are similar to the goals of structuring copyright *protection* as *in rem* exclusion rights: (a) deterrence against illegitimate, harmful restrictions on authorized uses; and (b) incentivizing lawful, socially-beneficial use of copyrighted works. The structuring of copyright exemptions as *in rem* exclusion rights forces copyright owners and third parties to internalize and take into account costs and negative externalities that derive from the imposition of restrictions on exempted uses. Additionally, such structuring also lowers and sets caps to the barriers and costs that users confront. In turn, this better enables users to capture and internalize the social value of their activities. Copyright protection provides economic incentives by securing the originating creators' return on their investments.[31] Users' *in rem* exclusionary exemptions operate in a similar, though reverse, manner. The exemptions increase users' economic incentives by lowering and capping their investment (i.e., cost) for accessing and utilizing copyrighted works.

Copyright law thus regulates conflicting claims over intangible creative resources, which compose its subject matter. The bundle of rights to carry out certain actions with regard to copyright's subject matter is dual and reciprocal. It applies both to one's capacities as a user and as a copyright owner. The shift from one proposition to another depends on which of the two options better promotes the capture of social value.[32] Yet, both propositions may justify exclusive control over certain uses of copyrighted works, be it in the hands of copyright owners or users.

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initial allocation and transferability of a resource). *See also* Harold Demsetz, *Toward a Theory of Property Rights*, 57 AM. ECON. REV. 347, 350 (1967) (justifying property rights as a mechanism that enables a single owner to internalize most costs and benefits that derive from the utilization of a resource while greatly reducing the number of people exposed to externalities).

[31] *See* Landes & Posner, *supra* note 24, at 332–41; Lunney, *supra* note 27, at 496–97.

[32] *See generally* Lunney, *supra* note 27 (describing copyright's incentive-access paradigm and the goal of structuring copyright's scope, as well as copyright's exceptions, based on an equilibrium that better promotes capture of social value. My approach adds to current literature by arguing that users' entitlements should be structured as *in rem* non-interference claim rights as well).

a. Critiques

The structuring of copyright exemptions as *in rem* exclusive rights also faces some critiques. To a large degree, these critiques mirror shortcomings, which are associated with copyright protection. One central critique touches upon the issue of transaction costs. The transaction costs critique rests on the assumption that just like copyright protection, *in rem* exclusive exemptions only set initial default allocation of users' entitlements. From this point, copyright owners and third parties that value a restriction on an exempted use more than a user values the exempted use may attain the ability to control the exempted use.

Copyright owners may sell their copyrights or license the utilization of a copyrighted work for a use that falls within their bundle of exclusive uses.[33] Similarly, users may "reverse-license" their entitlement for an exempted use through a contractual obligation not to engage in such a use.[34] Under Ronald Coase's famous theorem, such transactions over users' entitlements are both efficient and desirable because they enable parties to bargain over the most efficient result: putting users' entailments in the hands of those who place the highest value on them.[35] Thus, for example, contracting around users' rights may facilitate efficient licensing schemes that override copyright law's default exemptions, while proving less costly for users.[36]

According to the transaction costs critique, structuring copyright exemptions as *in rem* exclusion rights bears significant economic inefficiencies. The practical implication of requiring copyright owners and third parties to obtain users' authorization to

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[33] *See* 17 U.S.C. § 106 (2002).

[34] *See, e.g.*, Jacques De Werra, *Moving Beyond the Conflict Between Freedom of Contract and Copyright Policies: In Search of a New Global Policy for On-line Information Licensing Transactions*, 25 COLUM. J. L. & ARTS 239, 248 (2003) (surveying and explaining the general rule, as well as increasing practices, under which users take upon themselves a contractual obligation not to engage in certain exempted uses).

[35] *See* Ronald H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1, 44 (1960).

[36] *See generally* Wendy J. Gordon, *Intellectual Property as Price Discrimination: Implications for Contract*, 73 CHI.-KENT L. REV 1367 (1998).

restrict an exempted use is a requirement to obtain authorization from an infinite number of users. Consequently, the high transaction costs of approaching and negotiating with users would practically impede any market transaction of contracting around users' *in rem* exclusion rights.

In rem exclusionary exemptions, so goes the argument, practically enforce a regime of inalienable exempted uses because it is impossible—in terms of transaction costs—to obtain authorization from all relevant users. This is also the element that marks the distinction between *in rem* exclusive copyrights and *in rem* exclusive exemptions. *In rem* exclusive copyrights are efficient because there exists only one right holder from which authorization should be obtained; *in rem* exclusive exemptions are inefficient because there exists an infinite number of users from which authorization should be obtained.

The transaction costs critique is indeed acute. Nevertheless, for several reasons, it does not seem to prevail over the potential contribution of structuring copyright exemptions as *in rem* exclusion rights. To start, structuring copyright exemptions as *in rem* exclusion rights does not rest solely on efficiency considerations. There are a variety of moral,[37] constitutional,[38] cultural,[39] and distributive considerations[40] that underlie copyright exemptions. A detailed,

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[37] *See* Yochai Benkler, *Siren Songs and Amish Children: Autonomy, Information, and Law*, 76 N.Y.U. L. REV. 23, 41 (2001) (establishing the link between the value of individual autonomy and copyright exemptions); Jed Rubenfeld, *The Freedom of Imagination: Copyright's Constitutionality*, 112 YALE L.J. 1, 59 (2002) (developing the right to freedom of imagination as a moral imperative for the establishment and design of copyright exemptions).

[38] *See* Yochai Benkler, *Free As the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 N.Y.U. L. REV. 354, 359 (1999); Michael D. Birnhack, *Copyright Law and Free Speech After* Eldred v. Ashcroft, 76 S. CAL. L. REV. 1275, 1291–292 (2003) (elaborating the constitutional role of copyright exemptions as a mechanism of compliance with freedom of speech and its constitutional value).

[39] *See* Anupam Chander & Madhavi Sunder, *Everyone's a Superhero: A Cultural Theory of "Mary Sue" Fan Fiction as Fair Use*, 95 CALIF. L. REV. 597, 599–600 (2007); Cohen I, *supra* note 13, at 1153–154.

[40] *See* Anupam Chander & Madhavi Sunder, *Foreword: Is Nozick Kicking Rawls's Ass? Intellectual Property and Social Justice*, 40 U.C. DAVIS L. REV. 563, 568 (2007); Margaret Chon, *Intellectual Property "From Below:" Copyright and*

comprehensive discussion of these considerations exceeds the purpose and scope of this essay. Nevertheless, even without such a scrutinized examination, it seems that these considerations may justify stretching the legal strength of copyright exemptions towards the edge of *in rem* exclusion rights.

Even if the obstacle of transaction costs materializes, a legal regime of defaults that requires users' authorization—before overriding copyright exemptions—may prove superior to a legal regime of defaults that authorizes unilateral restriction of copyright exemptions by copyright owners and third parties. Put another way, once values and goals that go beyond mere efficiency considerations are introduced, partial inalienable attributes of copyright exemptions will not necessarily be a shortcoming strong enough to outweigh the structuring of copyright exemptions as *in rem* exclusion rights.

The second response to the transaction costs critique is even more direct: just as in the context concerning copyright owners, there are market and voluntary mechanisms that may overcome the problem of high transaction costs, at least partially, in the context of *in rem* exclusion exemptions. If users' entitlements (i.e., *in rem* exclusion exemptions) attain economic value for copyright owners, third parties, and users, then collective/institutional contracting around *in rem* exclusion exemptions is likely to emerge, particularly between repeat players. To elaborate, in the context of copyright owners' entitlements, Robert Merges has demonstrated how, in many cases, repeat players have an incentive to develop institutional voluntary market mechanisms that decrease and mitigate high transaction costs.[41] Merges' basic argument is that repeat players develop these mechanisms by concentrating a portfolio of copyrights in the hands of one single entity, such as a collecting society.[42]

Capability for Education, 40 U.C. DAVIS L. REV. 803, 808 (2007); Molly Shaffer Van Houweling, *Distributive Values in Copyright*, 83 TEX. L. REV. 1535, 1578 (2005).

[41] *See* Robert P. Merges, *Contracting Into Liability Rules: Intellectual Property Rights and Collective Rights Organization*, 84 CALIF. L. REV. 1293, 1293–294 (1996).

[42] *Id*.

Similar dynamics may also evolve in the context of users' *in rem* exclusion exemptions. For example, a consortium of academic institutions may collectively bargain with scientific publishers over these institutions' terms of use. The bargain may include instances of contracting around *in rem* exclusion exemptions when it is desirable and/or efficient for both sides to do so, such as adding a contractual term under which the academic institutions would prohibit downloads of online books by students, regardless of fair use considerations, against a lower institutional subscription fee. I am not arguing that such collective agreements are desirable under all circumstances, however.

I also table the question of when and under which conditions copyright exemptions should be cogent and non-waivable.[43] My only current argument is regarding negotiable *in rem* exclusion exemptions: that the problem of high transaction costs is solvable, including through market-based solutions. Scenarios of high transaction costs are indeed apparent and require solutions. Nonetheless, they do not outweigh the justifications and advantages of structuring copyright exemptions as *in rem* exclusion rights.

Additionally, just like in the context of copyright owners' bundle of exclusive rights,[44] remedies for an infringement of users' *in rem* exclusion exemptions may vary from one case to another; thus taking into account considerations such as high transaction costs. In some circumstances, a remedy of injunction favoring users may not be appropriate due to high transaction costs; just as in some circumstances, a remedy of injunction in favor of copyright owners

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[43] *See generally* LUCIE GUIBAULT, COPYRIGHT LIMITATIONS AND CONTRACTS: AN ANALYSIS OF THE CONTRACTUAL OVERRIDABILITY OF LIMITATIONS ON COPYRIGHT (2002) (critically examining whether, when, and under what conditions copyright exemptions should be cogent and non-waivable). De Werra, *supra* note 34, at 264.

[44] *See* eBay Inc. v. MercExchange, LLC., 547 U.S. 388, 391 (2006) (stressing that in intellectual property law suits, injunctive relief is a discretionary remedy which is based on the following criteria: the irreparable injury rule (in the absence of an injunction, the plaintiff would be caused an irreparable injury which could not be compensated by monetary relief); the balance of hardships between the plaintiff and defendant and; the clean hands rule (equitable relief is only granted if the plaintiff acted in a decent and moral manner)); Salinger v. Colting, 607 F.3d 68, 77–78 (2d Cir. 2010) (determining that the holding of *eBay v. MercExchange* should apply to copyright cases as well).

would not be appropriate.[45]

More generally, the proposal to structure copyright exemptions as *in rem* exclusion rights indeed raises a series of questions and challenges which mirror those that copyright law customarily deals with in the context of copyright owners' bundle of exclusive rights. At times, users might abuse and misuse their *in rem* exclusion exemptions, just like copyright owners might abuse and misuse their exclusive proprietary copyrights.[46] Legal doctrines, such as the doctrine of copyright misuse,[47] may evolve in the context of the misuse of users' rights. Moreover, one can envision exemptions to users' *in rem* exclusion rights, which would mirror copyright exemptions. For example, the author of an unpublished manuscript may prevent third parties from accessing and using it, and may do so by implementing certain technological protection measures. Such conduct should not be classified as an infringement of users' *in rem* exclusion rights, even if certain secondary uses of the manuscript could be classified as authorized fair use. In such circumstances, privacy considerations may justify an exemption to the structuring of users' fair use defense as an *in rem* exclusion exemption.[48]

The preceding are all complexities that need to be addressed and further developed, just like copyright law's bundle of exclusive rights was and still is culminated and adjusted through a diverse range of doctrinal tools, such as the fair use defense.[49] Nevertheless, these challenges do not seem to negate the justification for making copyright's exemptions exclusionary, nor do such complexities seem

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[45] *See* Gordon, *supra* note 11, at 1622–624.

[46] *See* PAUL GOLDSTEIN, COPYRIGHT, PRINCIPLES, LAW AND PRACTICE § 9.6.1 (2d ed. 2005).

[47] *See id.* Tom W. Bell, *Codifying Copyright's Misuse Defense*, 2007 UTAH L. REV. 573 (2007); Ilan Charnelle, *The Justification and Scope of the Copyright Misuse Doctrine and Its Independence of the Antitrust Laws*, 9 UCLA ENT. L. REV. 167 (2002).

[48] *See* Kenneth D. Crews, *Fair Use of Unpublished Works: Burdens of Proof and the Integrity of Copyright*, 31 ARIZ. ST. L.J. 1 (1999) (analyzing the unique status of unpublished works, within copyright law, and the impact of such works' privacy considerations on the applicability of the fair use defense).

[49] *See* 17 U.S.C. § 107 (1976).

to support a total abandonment of copyright protection.

III. A Reciprocity Requirement for Exempted Uses

Under the second principle mentioned previously, copyright exemptions should be reciprocal. A user's reliance on a copyright exemption should be conditioned upon a reciprocal duty not to prevent others from using the copyrighted work under secondary use for purposes similar to his or her claim for a copyright exemption. This reciprocal duty not to prevent others from using the copyrighted work should also apply to technological protection measures and contractual terms that secondary users impose on a work.[50]

Consider a television broadcaster who relies on the fair use argument to broadcast news reports and sports event highlights exclusively licensed to another broadcaster. This broadcaster may owe a reciprocal obligation to third parties who wish to use, for news reporting purposes, some of its exclusive copyrighted materials. Similarly, if a television broadcaster considers a parody embedded in a television program to be fair use, then a similar rule should apply to future transformative uses of this broadcaster's own creative materials. The television broadcaster should be prohibited from preventing public access to, or secondary uses of, its own television programs.

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[50] The inspiration for making copyright's exemptions reciprocal is partially based on the share-alike option that is available through Creative Commons licenses. *See* CREATIVE COMMONS, http://creativecommons.org (last visited Dec. 10, 2014). Creative Commons is a nonprofit, U.S.-based organization that operates a licensing platform promoting free use of creative works. Within this framework, rights holders can choose any combination of the following standardized terms: Attribution (requiring credit to the author), Noncommercial (authorizing all uses for noncommercial purposes), No Derivative Works (authorizing the use of verbatim copies and prohibiting the creation of derivatives), and Perpetuity. The basic idea behind the Creative Commons is to facilitate the release of creative works under standardized, automated, and relatively generous licensing schemes that make copyrighted works available for sharing and reuse. The share-alike license creates a viral licensing scheme, requiring creators of derivative works to subject subsequent users of their derivatives to the same license that governs the original. Both proposals share a common ideological background that aims to advance distributive and collaborative values. Yet, as opposed to the Creative Commons scheme, my proposal is broader in its scope and is more ambitious in its attempt to make reciprocal share-alike obligations an *in rem* cogent binding element of copyright law.

Educational use illustrates a second example. Consider university professors who use, reproduce, and internally distribute extracts of academic articles as teaching material while relying on the fair use defense.[51] These professors should owe a reciprocal duty to enable their students to produce and exchange written summaries of the professors' lectures.

Another reciprocity requirement may involve reverse engineering and database/information retrieval. Technology companies may rely on a fair use defense when they reverse engineer third-party computer software for research and development purposes.[52] The same companies should be prohibited from preventing their competitors—either through contractual terms or technological protection measures—from engaging in similar reverse engineering practices on its own software products. According to this reciprocity requirement, parties relying on a fair use defense for reverse engineering hold a reciprocal obligation not to prohibit third parties from reverse engineering their own products.

In the context of database/information retrieval, there are two illuminating examples, both of which refer to Google's activities in the areas of search engines and large-scale information retrieval. The first example refers to the reduced-size "thumbnail" images for websites on Google's search results pages. In the *Perfect 10* case, Google successfully argued that reproduction of websites' images solely for the purpose of displaying them as reduced-size thumbnail images in results pages of a search engine is fair use.[53] As a result, in accordance

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[51] *See* Cambridge Univ. Press v. Patton, 769 F.3d 1232 (11th Cir. 2014) (discussing the applicability of the fair use defense in the context of using extracts of copyrighted materials for teaching purposes). Although the court rejected the fair use defense argument based on the specific facts of the case, the court still acknowledged that nonprofit educational use of copyrighted materials may qualify as fair use).

[52] *See* Pamela Samuelson & Suzanne Schotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE. L. J. 1575 (2002) (discussing reverse engineering, its welfare effects, and the applicability of the fair use defense in reverse engineering scenarios).

[53] *See* Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1167–168 (9th Cir. 2007) (determining that Google's reproduction of websites' images solely for the purpose of displaying them as reduced-size thumbnail images in results pages of a search engine is fair use).

with the reciprocity requirement and successfully relying on the fair use defense, Google then had a reciprocal obligation to allow third parties to access and use its own databases of images.

The second example refers to the Google Books Library Project.[54] In this example, Google scanned into its database public domain and copyrighted collections of books from several major academic and public libraries.[55] In response to search queries, users were able to browse the full text of public domain materials but not the full text of copyright materials.[56] Google successfully relied on the fair use defense for the reproduction of copyrighted works for archival and retrieval purposes.[57] Following the reciprocity requirement, Google should allow third parties to similarly use materials from its databases. Google should also be prohibited from imposing technological protection measures or contractual obligations that revoke its reciprocal obligations. Thus, Google should be obliged not to restrict third parties from accessing, reproducing, and making available for fair use purposes (such as for research or education) materials from its databases of public domain materials.

Under some circumstances, current copyright law schemes are flexible enough to integrate and implement the reciprocity requirement. For example, the element of fairness within the fair use defense[58] is a vessel flexible enough to be considered for reciprocal obligations of secondary users who may later be copyright owners of their own secondary works subject to a fair use claim. Additionally, doctrines such as misuse of copyright[59] or judicial discretion regarding

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[54] *See* Authors Guild, 954 F. Supp. 2d at 282 (describing the Google Books Library Project and classifying its utilization and reproduction of copyrighted works as eligible fair use).

[55] *Id*. at 285–87.

[56] *Id*.

[57] *Id.* at 291–94.

[58] *See* 17 U.S.C. § 107 (1976). *See also* Castle Rock Entm't. v. Carol Pub. Grp., Inc., 150 F.3d 132, 141 (2d Cir. 1998); Bill Graham Archives, LLC v. Dorling Kindersley Ltd., 386 F. Supp. 2d 324, 328 (S.D.N.Y. 2005), *aff'd*, 448 F.3d 605 (2d Cir. 2006) (emphasizing that the four factors contained in § 107 are illustrative and not limiting).

[59] *See supra* note 47 and the sources cited therein.

injunction remedies[60] may also function as tools for enforcing a reciprocity requirement.

In other circumstances, there may be both a justification and a need to add the reciprocity requirement as an explicit statutory element. Such a situation may be the case for content sharing platforms with a potential partial immunity from liability for copyright infringement with regard to materials uploaded to the platform by third parties. The Digital Millennium Copyright Act (DMCA) includes four main safe harbors for Internet services providers.[61] For instance, Section 512(c) of the DMCA provides a safe harbor for providers of hosting services.[62] Court rulings for content sharing platforms vary, but their general stance is that content sharing platforms benefit from 512(c)'s safe harbor.[63] The most recent case is *Viacom Int'l, Inc. v. YouTube, Inc*.[64] In the decision, the Second Circuit applied Section 512(c) in the context of content sharing platforms and determined that content sharing platforms may benefit from 512(c)'s safe harbor.[65]

Following a reciprocity requirement, content sharing platforms relying on Section 512(c)'s safe harbor should not limit—contractually, technologically, or otherwise legally—secondary uses of third-party uploaded materials and information (e.g., metadata) residing on their platforms. On the flip side, content sharing platforms' reliance on Section 512(c)'s safe harbor should be a reciprocal share-alike obligation not to organize the platform around a proprietary regime. Once they classify their activity as "a network that hosts information at the direction of users," and they take shelter under Section 512(c)'s exemption, content sharing platforms cannot "lock

[60] *See supra* note 44 and the sources cited therein.

[61] *See* 17 U.S.C. § 512 (2012).

[62] *Id*.

[63] *See, e.g.*, Io Grp., Inc. v. Veoh Networks, Inc., 586 F. Supp. 2d 1132 (N.D. Cal. 2008). *See also* Mary Rasenberger & Christine Pepe, *Copyright Enforcement and Online File Hosting Services: Have Courts Struck the Proper Balance?*, 59 J. COPYRIGHT SOC'Y 627, 662–92 (2012).

[64] Viacom Int'l, Inc. v. YouTube, Inc., 676 F.3d 19 (2d Cir. 2012).

[65] *Id*.

up"—either technologically or legally—third-party materials hosted on the platform.[66] This may require a legislative amendment of Section 512(c) to promulgate such a standard.

The reciprocity requirement, thus, functions as an element that complements current copyright exemptions schemes. It is not a conclusive element and it may be relevant only in some instances. Yet it functions as a standard that projects on "third-generation" subsequent uses of copyrighted works that may further enhance the legitimacy and strength of copyright exemption claims by made "third-generation" subsequent users. Additionally, the nature of the reciprocity requirement is such that it focuses not only on the powers and rights of "third-generation" subsequent users, but also on the obligations and duties of proprietary owners (i.e., secondary users now in their capacity as proprietary owners).

a. Justifications

There are several dimensions that may justify the introduction of a reciprocity requirement into copyright exemptions schemes. The first dimension touches upon the economics of copyright law. A reciprocity requirement fine-tunes the economics of copyright law by decreasing the burden on, and the costs of, future creative activities seeking to access and use content while relying on a copyright exemption. Reducing barriers and costs of future creative activities without undermining the incentives for, and visibility of, originating content production is a general goal of copyright law.[67] The reciprocity requirement goes beyond the general incentive-access paradigm of copyright law.[68] It captures instances in which secondary creators can benefit from a copyright exemption that provides them with free access and utilization of copyrighted materials for certain socially-valued purposes. This may serve as a default indication that the incentive to produce the secondary work is not necessarily conditioned upon expectation of proprietary control over future similar uses of the secondary work. An exemption that reduces the costs of

[66] 17 U.S.C. § 512(c) (2012).

[67] *See supra* note 27 and the sources cited therein.

[68] *See supra* note 27 and the sources cited therein.

producing a secondary work, and thus increases the incentive to produce the secondary work in the first place, should be taken into account when determining the legal regime that governs access and utilization of the secondary work for similar purposes. From a long-term perspective, however, creators may plan ahead based on the presumption that there is a trade-off between their *ex-ante* ability to freely access and use the copyrighted works, and their *ex-post* lack of ability to prevent subsequent "third-generation" users from doing the same with regard to their own secondary materials.

Incentives to create and produce are based not only on one's prospective earnings, but also on one's initial costs of investment. The reciprocity requirement tends to embed a coherent, long-term principle that lowers barriers and costs for creators who proportionally rely on existing copyrighted works for additional socially-valued creative and informational activities. Hence, the reciprocity requirement enriches the economic planning dimension of copyright law beyond the traditional incentive-access paradigm.

The reciprocity requirement captures instances that require more than the mere balancing of an exemption's social benefit and its impact on incentives to create. It focuses on instances of third-generation subsequent uses that may undermine the incentive to create the secondary work. Yet, they would not do so if the originating, secondary creator was able to reduce his own costs of production by *benefiting* from a copyright exemption *in exchange for* a copyright exemption.

The reciprocity requirement seeks to capture third-generation subsequent uses in addition to a general copyright exemptions scheme. It also aims to locate and induce the trade-offs listed below. It structures a chain of exemptions based on a normative assessment of an optimized equilibrium between incentives to creators to actively create future works. It focuses on users beyond the first generation copyright owners as well.

Consider, for example, cultural institutions engaged in digital preservation projects. Cultural institutions may lack the resources and incentives to continuously engage digital preservation projects if they are required to pay for the preservation of copyrighted cultural works and make them available (e.g., for research purposes). These not-for-profit institutions operate with very little market demand and their activities bear significant social value (i.e., positive externalities). A copyright exemption that provides cultural institutions with free access and free use of copyrighted works for digital preservation purposes may be essential for the sustainment of their activities. In exchange for such an exemption, cultural institutions may be willing to subordinate their own secondary copyrighted works to certain exemptions, that is, to "buy out" their exemption through reciprocal obligations. Accordingly, third parties may benefit from a similar exemption that authorizes them to access and use cultural institutions' digital archives.

A consequence of a reciprocity requirement is that it decentralizes and allocates equally creative and expressive opportunities. It assists in mitigating potential distribution gaps between powerful corporate media entities that also rely on copyright exemptions. It decentralizes and diffuses less powerful third-generation users who wish to access and use, for similar purposes, the secondary works of powerful corporate media entities. The reciprocity requirement also responds to circumstances in which entities powerful enough to stretch the boundaries of copyright's exemptions are powerful enough to limit third parties' ability to access and use these entities' secondary products for similar legitimate and socially-benefiting purposes.

Google's litigious actions emulate the reciprocity requirement. In a series of strategic maneuvers and court actions, Google has successfully expanded the boundaries of the fair use defense and copyright exemptions.[69] Yet, at the same time, Google imposes terms, conditions, and technological restrictions on the exempted products to prohibit third parties from engaging in subsequent use.[70]

Consider the Google Books Library Project's treatment of public domain materials. Google provides free access to full copies of

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[69] *See* Viacom, 676 F.3d at 19 (sheltering, successfully, YouTube's commercial content sharing platform under the DMCA's safe harbor provision for hosting services providers); Perfect 10, Inc., 508 F.3d at 1167–168 (determining that Google's reproduction of websites' images solely for the purpose of displaying them as reduced-size thumbnail images in results pages of a search engine is fair use); Authors Guild, Inc. v. Google Inc., 2013 U.S. Dist. LEXIS 162198 (S.D.N.Y. Nov. 14, 2013) (arguing, successfully, that the reproduction of entire copyrighted works for their inclusion in the Google Books Library Project is considered fair use as long as only snippet quotations from the copyrighted works are presented and made available to the public).

[70] *See* Authors Guild, 954 F. Supp. 2d at 282, 285–88.

public domain materials archived in its databases.[71] Nevertheless, Google imposes several proprietary restrictions on the use of its public domain materials.[72] One restriction is that Google prohibits users from "scanning its scans" and creating separate web services based off of its public domain materials.[73] Users cannot access and browse the content of Google's databases, nor can they apply non-Google search and retrieval utilities on Google's databases.[74] Users may only download copies of public domain works from Google's library after using Google's search capability.[75] In addition to these technological proprietary restrictions, Google also contractually limits the use of its public domain materials to "personal, non-commercial use" and prohibits automated searching and harvesting of public domain materials from its databases.[76]

The second example is Google's content-sharing platform, YouTube, which benefits from the DMCA's safe harbor provision for hosting services providers.[77] Users may access YouTube's content for free, yet YouTube imposes several proprietary restrictions on its users.[78] First, YouTube does not allow users to download other users' uploaded content; users may only view or link to content.[79] The

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[71] *Id*. (describing Google Books Library Project access policy including in the context of public domain books).

[72] *See Terms of Service*, GOOGLE BOOKS, http://books.google.co.il/intl/iw/googlebooks/tos.html (last visited Oct. 17, 2014) (delineating Google's *international* terms of service, which apply with regard to digital copies of public domain books. On the first page of any public domain book's digital copy, Google adds terms that restrict its use to only non-commercial personal uses by individuals, and prohibit automated queries).

[73] *Id*.

[74] *Id*.

[75] *Id*.

[76] *Id*.

[77] *See generally* Viacom Int'l, Inc., 676 F.3d 19.

[78] *See Terms of Service*, YOUTUBE (June 9, 2010), *available at* http://www.youtube.com/t/terms [hereinafter YouTube Terms of Service].

[79] *Id*. at 5.1(L).

content cannot then be used on other platforms or in other settings, regardless of the fact that third-party users uploaded the content.[80] YouTube's immunity from copyright liability is based on the presumption that YouTube is a neutral host for third-party user content.[81] Moreover, YouTube claims copyright to all of its website content including the text, software, scripts, graphics, photos, sounds, music, videos, and interactive features—except user submissions.[82] The reciprocity requirement counterbalances such disparities while bringing copyright law closer to a distributive equilibrium. It responds to circumstances in which entities, powerful enough to stretch the boundaries of copyright's exemptions, are also powerful enough to limit other third parties' ability to access and use these entities' secondary products for similar legitimate and socially-benefiting purposes. The reciprocity requirement also has the expressive impact of making copyright law and cultural production more collaborative—closer to notions of discourse, sharing, and cultural democracy.[83] It does so by enforcing a norm of reciprocity into copyright law. For those who perceive copyright law as a legal mechanism aimed at advancing the goals of reducing barriers and costs of future creative activities—without undermining the incentives for, and visibility of, originating content production—the reciprocity requirement is a welcomed addition.

b. Caveats

The introduction of a reciprocity requirement to the copyright exemptions schemes may raise concerns. One concern is the potential negative impacts of an overbroad reciprocity requirement on the economic incentives of originating secondary creators. With limited copyright protection and proprietary control, creators of secondary

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80 *Id*.

81 *See* Viacom Int'l, Inc., 676 F.3d 19.

82 *See* YouTube Terms of Service, *supra* note 78.

83 *See, e.g.*, Jack M. Balkin, *Digital Speech and Democratic Culture: A Theory of Freedom of Expression for the Information Society*, 79 N.Y.U. L. REV. 1 (2004); Cohen I, *supra* note 13; Cohen II, *supra* note 13; Madhavi Sunder, *IP3*, 59 STAN. L. REV. 257 (2006).

works may lack sufficient incentives to invest resources in producing and distributing their secondary works that rely on a copyright exemption. Another concern involves the information costs third-generation subsequent users confront when they determine if the secondary works they wish to use are subordinated to reciprocal obligations. To determine the reciprocal status of secondary works, third-generation subsequent users need information about the circumstances and conditions under which a secondary work was produced. This information is not readily available, and even if it is, secondary users would not likely share it. Similarly, secondary users subordinated to a reciprocity requirement may also face non-trivial information costs when attempting to determine, *ex-ante*, their prospective *ex-post* exposure to a reciprocity requirement.

These concerns should be considered when delineating the contours of a reciprocity requirement. Nevertheless, they do not negate a prior overall desirability of introducing a reciprocity requirement to copyright exemption schemes. Similar to the fair use defense, the reciprocity requirement should maintain sufficient *ex-ante* incentives to the initial production of secondary works—works that rely upon a copyright exemption and are subordinated to a reciprocity requirement.

Consider the fourth factor of the fair use defense, which focuses on the effect of a use on the potential market for, or the value of, a copyrighted work.[84] This factor helps construct the boundaries of authorized fair use while maintaining sufficient incentives for *ex-ante* production of copyrighted works. Considerations of potential negative impacts on *ex-ante* incentives to produce cultural works do not diminish considerations of the social value of copyright exemptions, at least in the context of third-generation subsequent uses of secondary works.

Like the fair use defense, the reciprocity requirement should maintain sufficient *ex-ante* incentives for the initial production of secondary works that rely on a copyright exemption. Overall, the formula in this context is relatively straightforward. The greater the costs a secondary user recoups in the course of relying on a copyright

[84] *See* 17 U.S.C. § 107 (1976) (stating that among other considerations, the applicability of the fair use defense is based also on the impact of the use on the value of the copyrighted work and its potential market; alternately phrased, it is based on the initial incentive to engage in the production of the copyrighted work).

exemption, the broader the reciprocity requirement a secondary user receives while maintaining the incentives to produce secondary works.

Similarly, the concerns over information costs can be addressed and resolved. For starters, there do exist categories of transparent exempted secondary uses with no information costs. One category involves the time when secondary users rely on a statutory mechanism, such as Section 512(c)'s safe harbor, for hosting services providers. Another category of transparent exempted secondary uses includes large-scale informational and cultural retrieval projects that are well-recognized and acknowledged by creative sectors and the general public. The Google Books Library Project[85] and its proclaimed reliance on the fair use defense provides an example in this category. In this instance, there is no information cost for third-generation subsequent users.

Moreover, problems of information costs may be partially solved by legal regulation. For example, information costs may be solved by the imposition of a default rule that requires secondary users to reveal their licensing agreements with originating copyright owners as a precondition for suing third-generation subsequent users. Unless a secondary user provides evidence that its use of copyrighted materials was based on a license agreement, the default presumption should be that it was an exempted, privileged use with the consequences of a reciprocity requirement. This default rule can be further improved and broadened by imposing a statutory requirement of notice and registration of licensed secondary use. Unless a licensed secondary use is registered and published, the presumption should be that it was an exempted privileged use. Indeed, this proposed legal regulation requires further elaboration and thought than what is offered in this article, but the problem of information costs can be resolved fairly easily. It does not eliminate the advantages and practicalities of reciprocating copyright exemptions. In addition, one must take into account the fact that similar, if not parallel, information costs are apparent in licensed use of copyrighted works.

Secondary works that include licensed embedded elements from copyrighted works impose similar information costs. In these types of cases, third-generation subsequent users might face significant information costs when attempting to identify the parties from whom

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[85] *See supra* note 54 and accompanying text.

they need to obtain licenses in order to use a secondary work. Copyrighted works, as well as other types of legally protected intellectual goods, tend to have significant information costs because of their intangible attributes.[86] Just as such a scenario does not impose absolute barriers against the recognition of copyright protection, it should likewise not impose absolute barriers on the recognition of reciprocal copyright exemptions. In both aspects, the solution lies in developing legal institutions that overcome the problem of information costs while benefiting from the advantages of copyright and reciprocal exemptions.

Copyright law customarily and constantly confronts the need to adjust its boundaries and particulars based on its impact on incentives, externalities, transaction costs, and other parameters. The reciprocity requirement is not an exception in terms of its potential to highlight issues in those regards. At the same time, it is also not an exception in terms of the ability to design the reciprocity requirement in ways that correspond and take into account such impacts and considerations.

IV. Adjustment According to Institutional Attributes

Under the third principle—adjustment according to institutional attributes—when crafting, interpreting, and applying copyright exemptions, legislators and courts should consider the institutional attributes of both copyright owners and potential users involved. In appropriate circumstances, the breadth of a copyright exemption may expand based on the institutional attributes of either users or copyright owners.

Consider the case of not-for-profit cultural institutions like museums. According to the third principle, the institutional attributes of not-for-profit cultural institutions may justify broader application of copyright exemptions. Yet in their capacity as copyright owners, not-for-profit cultural institutions may face higher scrutiny in terms of their ability to enforce their own copyrights against secondary users who claim copyright exemptions. In other words, the institutional attributes of not-for-profit cultural institutions may also allow them broader copyright exemptions for their own copyrighted works.

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[86] *See generally* Clarisa Long, *Information Costs in Patent and Copyright*, 90 VA. L. REV. 465 (2004).

Museums, therefore, may benefit from a broad applicability of the fair use defense when producing digital images of their art collections for documentation, cataloging, and commentary purposes. At the same time, museums should be subordinated to higher scrutiny when third parties claim copyright exemptions for secondary uses of their digital images collections or other copyrighted works.

To some degree, the element of institutional attributes is inherent in copyright law. There are copyright exemptions unique to particular and specific institutions such as libraries, archives, and cable operators.[87] My proposal, however, departs from the current existing law in three aspects. First, the impact of institutional attributes under the propositions in this article functions not only as a trigger for an increased ability to benefit from copyright exemptions, but it also functions as a normative source for broader obligations in terms of copyright owners' subordination to copyright exemptions. Second, institutional attributes should function as an open-ample standard that may implicate and guide courts beyond particular casuistic instances in which legislators explicitly acknowledge copyright exemptions for certain institutions.[88] Third, my proposal to consider institutional attributes is not intended to replace functional examination of secondary uses, which remains an imminent parameter in determining eligibility for a copyright exemption. Instead, my argument is that along with other parameters, institutional attributes may bear particular importance and relevance.

Why should copyright law consider institutional attributes when determining the scope and applicability of copyright exemptions? The answer is relatively straightforward. Institutional attributes promote copyright law. Specifically, they promote diversified and ubiquitous cultures, and creative prosperity.[89]

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[87] *See*, *e.g.*, 17 U.S.C. § 108 (1976) (acknowledging particular exemptions for reproduction by libraries and archives, mostly for preservation purposes); 17 U.S.C. § 111 (1976) (acknowledging a compulsory license exemption for simultaneous cable retransmission of television broadcast stations by licensed cable operators).

[88] *See* Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857 (1987). *See generally* JESSICA LITMAN, DIGITAL COPYRIGHT (2001) (describing and explaining the casuistic nature of statutory copyright exemptions and their concentration on specific, narrowly defined institutions through the lens of public choice theory).

[89] *See*, *e.g.*, Campbell, 510 U.S. at 575; Feist, 499 U.S. at 349–50. *See also* PAUL

Considering positive externalities in copyright law (in general) and copyright exemptions (more particularly) are conceived as mechanisms aimed at addressing and promoting the internalization of positive externalities—a social, creative value not fully captured by copyright owners or users.[90] In the context of copyright exemptions, the element of positive externalities suggests that copyright exemptions should be acknowledged in socially-valued secondary uses of copyrighted materials. These uses are not likely to occur in market transactions and do not seem to cause significant harm to copyright owners.[91]

This function of copyright law, however, requires promotion of particular secondary uses and institutions dedicated to secondary uses with prominent elements of positive externalities. Consideration of institutional attributes in copyright law advances, therefore, the same goals that underlie the promotion of secondary uses. It does so by reducing barriers and costs, as well as improving stability and certainty for institutions dedicated to the public.

Institutional attributes may function as an inconclusive signal for the desirability and legitimacy of secondary uses—one of various parameters to be considered. Institutional attributes by themselves do not shield secondary uses, but they nevertheless matter with regard to the institutional frameworks of knowledge, information, and culture that society seeks to strengthen. They also matter in their roles and capacities that tend to lack effectiveness in pure market settings. Advancement of socially-benefiting secondary uses requires not only support of the particular uses, but also sustainment of the institutions committed to such uses.

On one hand, institutional attributes of copyright owners may make a stronger case for acknowledging a copyright exemption. In such instances, institutional attributes may signal a limited harm of a

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GOLDSTEIN, COPYRIGHT'S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX 232–36 (1994) (focusing on the element of promoting diversity through copyright policy).

[90] *See*, *e.g.*, Brett M. Frischmann & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257, 284–91 (2007); Harrison, *supra* note 26; Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031 (2005).

[91] *See* Gordon, *supra* note 11, at 1630–632.

copyright exemption, if and when acknowledged. Copyrighted works produced by a governmental or public institution provide a good starting point for such a discourse. The scope and applicability of copyright protection is limited if not denied for these types of works. Under Section 105 of the Copyright Act,[92] works prepared by an officer or an employee of the U.S government, as part of his official duties, are not eligible for copyright protection.[93] This approach may be justified for several reasons, including: a) the fact that such works do not require copyright protection is a source of incentive for their creation; b) the centrality of such works for certain democratic capacities (i.e., in the context of official documents); and c) the fact that the financial sources for the production of such works are public funds.

For this discussion, the reference to governmental works is relevant because similar considerations, although in a more delicate way, may apply to other institutions as well. Consider the case of institutions that are located in between the two extreme edges of state institutions on one hand, and commercial profit-motivated entities on the other hand. In this instance, institutional attributes do not justify negating copyright protection, but they may implicate the scope and breadth of copyright exemptions. The more public the institutional attributes of an entity are, the more flexibility copyright law should offer in regard to secondary uses of such institutions' copyrighted works.

For example, consider a film on the history of popular music with televised live performances originally documented and produced by: a) commercial network television; b) public broadcasting; or c) not-for-profit community television. The general nature of the originating copyrighted works and the general purpose of the secondary use are similar in all three scenarios. Yet, there are differences in the institutional attributes of the different originating copyright owners. In appropriate circumstances, these differences may justify more flexibility and broader copyright exemptions. Thus, regarding public broadcasting funded by tax-payers' money, for instance, the length and extensiveness of exemptions relied on by televised live performances may be broader than materials produced

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[92] *See* 17 U.S.C. § 105 (1976).

[93] *Id*.

by commercial network television. Similarly, the required degree of transformativeness[94] may be lower for secondary use of materials produced by public broadcasting.

If copyright law and copyright exemptions are about potential impacts on incentives to create and social benefits, then the institutional attributes of the originating copyright owners indeed matter. They matter because copyright owners with different institutional attributes are affected and implicated differently by their subordination to copyright exemptions.

V. Conclusion

This essay offers three structural horizontal principles that should be implemented to guide legislators and courts in the design of copyright exemptions: (a) *in rem* exclusivity; (b) reciprocity; and (c) adjustment according to institutional attributes. These three novel proposals aim to design copyright exemptions to improve the effectiveness of copyright law in fulfilling its constitutional imperative to promote creativity. By focusing and developing on the form and structure of copyright exemptions, this essay attempts to close the gap between the growing scholarship on users' rights and the limited scholarship on the legal formulation of users' rights. The discourse over the future of copyright law and the reforms that copyright law requires, in light of communicative and technological developments, is gaining increasing attention by domestic and international lawmakers, including in the context of users' rights. As this essay demonstrated, substance may follow form, no less than form follows substance. The form and structure of copyright exemptions, therefore, require careful consideration by legislators, courts, and the academy.

[94] *See* Campbell, 510 U.S. at 597 (suggesting that the transformative nature of a secondary use is a key parameter in determining eligibility for the fair use defense); Leval, *supra* note 11, at 1111.

A Textbook Version of the Doha Declaration: Editing the TRIPS Agreement to Establish Worldwide Education and Global Competition[1]

Melissa Staudinger

Nearly two decades into the new millennium, a vast majority of the world's population still lacks the basic essentials needed to create education systems and opportunities for commercial success. To address this problem, the landscape of copyright and intellectual property must change in order to broaden textbook availability, increase access to education, and maintain the balance needed for developing nations to become players in the global economy. By definition, the developing world lacks economic and social sustainability,[2] which is highly prompted from the limited—or non-existent—access to academic materials, and scarce potential for education attainability.[3] Research shows populations with higher education have enhanced opportunities for economic stabilization,[4]

[1] Dedicated to Norma Hanna, a true leader from the community of Paso Reàl in Nicaragua; Wendell Mettey with Matthew 25 Ministries, and Uncle Dean Cookle. Thank you, Dad and Matthew 25, for bringing me to such a beautiful country.

[2] Tucker Thomas, *Free Trade Agreements and the Poverty Reduction and Growth Facility: How These Institutions Target Poverty in Developing Countries*, 12 L. & BUS. REV. AM. 571, 572–76 (2006). *See also* Stephen McKenzie, *Social Sustainability: Towards Some Definitions* 12 (Hawke Research Institute, Working Paper No. 27, 2004) (explaining that while there remains a plethora of studies surrounding what constitutes social sustainability, the definition and scope of social sustainability may be defined as "a life-enhancing condition within communities, and a process within communities that can achieve that condition"). McKenzie points out that equity of access to key services, such as education, health, transport, housing, and recreation, is an indicator of the establishment and implementation of this sought-after communal condition of social sustainability. *Id.*

[3] SUSAN ISIKO ŠTRBA, INTERNATIONAL COPYRIGHT LAW AND ACCESS TO EDUCATION IN DEVELOPING COUNTRIES: EXPLORING MULTILATERAL LEGAL AND QUASI-LEGAL SOLUTIONS (2012).

[4] *See* William S. Koski & Rob Reich, *When "Adequate" Isn't: The Retreat from Equity in Educational Law and Policy and Why It Matters*, 56 EMORY L.J. 545, 601–03 (2006) (stating that "it is important to emphasize that no one believes that the acquisition of higher education has no effect on earnings. To the contrary, the nature of the nearly lockstep increase in earnings with every additional increment of educational attainment creates a strong presumptive case for a causal link between educational attainment and income"). *See also* JENNIFER DAY & ANDREA CURRY,

which is why change to the legal environment to prioritize social and economic welfare by increasing textbook availability in the developing world is crucial. By interpreting the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS Agreement)[5] with pro-development objectives and a consensus to amend the Agreement with

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UNITED STATES CENSUS BUREAU, P20-505, EDUCATIONAL ATTAINMENT IN THE UNITED STATES: MARCH 1997 (1998) (arguing that "[e]ducational attainment is one of the most important influences on economic well-being. More education tends to be reflected in greater socio-economic success for individuals and the country"); Bradley W. Joondeph, *A Second Redemption? Dismantling Desegregation: The Quiet Reversal of Brown v. Board of Education*, 56 WASH. & LEE L. REV. 169, 173 (1999) (stating that "[t]he disparities in educational experience . . . are the result of myriad social and economic problems, such as income and wealth disparities, residential segregation, high rates of joblessness, crime and violence . . ."); David M. Nelson & Robert T. Patton, *Measuring Earnings Growth in the U.S.*, 3-DEC J. LEGAL ECON. 11, 16 (1993) (arguing that "[d]ifferences in wage growth rates based on the level of educational attainment such as those observed are, over time, widening the income disparity between individuals with high and low levels of education. In 1975 the earnings of the average male four year college graduate were 48% higher than the average earnings of a male high school graduate. In 1990, their earnings were 66% higher"); Stephen Joseph Powell & Trisha Low, *Beyond Labor Rights: Which Core Human Rights Must Regional Trade Agreements Protect?*, 12 RICH. J. GLOBAL L. & BUS. 91, 116 (2012) (positing that "[i]ncreasing a woman's training and education is critical for developing a country's productive capacity, including the rate of return on investment, which of course will attract more investors"). *See* Andrew G. Berg & Jonathan D. Ostry, *Inequality and Unsustainable Growth: Two Sides of the Same Coin?*, INTERNATIONAL MONETARY FUND, Apr. 8, 2011, *available at* https://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf (noting this joint analysis' key result: income distribution survives as one of the most robust and important factors associated with growth duration). As Figure 3 demonstrates, a 10-percentile decrease in inequality—the sort of improvement that a number of countries have experienced during their spells—increases the expected length of a growth spell by 50 percent. Remarkably, inequality retains a similar statistical and economic significance in the joint analysis despite the inclusion of many more possible determinants. This suggests that inequality seems to matter in itself and is not just proxying for other factors. Inequality also preserves its significance more systematically across different samples and definitions of growth spells than the other variables. Inequality is thus a more robust predictor of growth duration than many variables widely understood to be central to growth.

[5] TRIPS: Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, THE LEGAL TEXTS: THE RESULTS OF THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS 320 (1999), 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994) [hereinafter TRIPS or often referred to as "the Agreement" based on context].

a Doha-like[6] Copyright Declaration, the international community could establish worldwide education accessibility and promote an equal and competitive global market.

This article explores the distribution and reproduction issues regarding copyrights, with a particular focus on educational textbooks. With Nicaragua as a case study, Parts I–III explain the current international copyright landscape and the problematic restrictions it imposes on the reproduction and distribution of academic textbooks, while briefly touching on the negative impact the *Kirtsaeng v. John Wiley & Sons, Inc.*[7] decision may have on textbook distribution.[8] The lack of resources (particularly textbooks) naturally stunts both education expansion and financial stability, and is not only an ongoing struggle in Nicaragua, but throughout the entire developing world.[9]

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[6] WTO, Declaration on the TRIPS Agreement and Public Health, Nov. 14, 2001, WT/MIN(01)/DEC/2, 41 I.L.M. 755 (2002), *available at* http://www.who.int/medicines/areas/policy/doha_declaration/en/ [hereinafter Doha Declaration]. To explain "Doha-like," a provision concerning the background of the Doha Declaration is required: "In 2001, Members of the World Trade Organization (WTO) adopted a special Ministerial Declaration at the WTO Ministerial Conference in Doha, the capital of Qatar, to clarify ambiguities between the need for governments to apply the principles of public health and the terms of [TRIPS] . . . [c]oncerns had been growing that patent rules might restrict access to affordable medicines for populations in developing countries in their efforts to control diseases of public health importance, including HIV, tuberculosis and malaria . . . The [Doha] Declaration responds to the concerns of developing countries about the obstacles they faced when seeking to implement measures to promote access to affordable medicines in the interest of public health in general, without limitation to certain diseases." In other words, due to the vast spread of infectious diseases in areas that are medicinally deficient, the Doha Declaration was adopted by the WTO in order for developing countries to utilize the flexibilities granted in TRIPS to bypass patent rights in order to provide greater access to essential medicines.

[7] 133 S. Ct. 1351, 1356 (2013) (holding that the first sale doctrine, codified in the United States Copyright Act, "applies to copies of a copyrighted work lawfully made abroad"). The first sale doctrine allows the owner of a particular copy of a copyrighted work "lawfully made under [the Copyright Act]" to sell or otherwise dispose of the possession of that copy without the permission or authority of the copyright owner. *Id.* at 1355.

[8] Salah Basalamah, *Compulsory Licensing for Translation: An Instrument of Development?*, 40 IDEA 503, 547 (2000).

[9] Paulette Stenzel, *Free Trade and Sustainability Through the Lens of Nicaragua: How CAFTA-DR Should be Amended to Promote the Triple Bottom Line*, 34 WM. &

Part IV touches on various legal responses to the economic instability and lack of education in the developing world, exploring shortfalls of specific free trade agreements and bilateral treaties. Part V proposes a solution to loosen the restrictions on copyright regulation, specifically upon academic textbooks, by amending TRIPS with a Doha-like Copyright Declaration. Through higher education, developing countries will be encouraged to have an active role in international markets, while providing investment opportunities and competition on the same global plane as the developed world.

I. A Need for Change

An overview of Nicaragua's current status of textbook circulation and financial standing provides an example of the extreme economic disparity between developed and developing countries. Couched between Honduras and Costa Rica, Nicaragua is among the poorest countries of Latin America.[10] Slightly larger than the size of New York State, Nicaragua has approximately 4.5 million people living within its borders.[11] About "seventy percent of its people live in poverty" and half of the workforce is unemployed.[12] While there was a significant reduction in its foreign debt, Nicaragua continues to be a debtor nation.[13] In fact, "[t]he government spends eleven times more each year on debt service than on health care."[14] In addition,

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MARY ENVTL. L. & POL'Y. REV. 653, 712–13 (2010), *available at* http://scholarship.law.wm.edu/wmelpr/vol34/iss3/2.

[10] Hunter R. Clark & Amanda Velazquez, *Foreign Direct Investment in Latin America: Nicaragua – A Case Study*, 16 AM. U. INT'L L. REV. 743, 744–45, 759 (2001) (discussing Nicaragua's poverty level). *See also* Sarah Helena Lord, *The Nicaraguan Abortion Ban: Killing in Defense of Life*, 87 N.C. L. REV. 537, 581 n. 263 (2009) (positing that "[i]ncome distribution figures for Nicaragua show that 'forty-five percent of all income goes to the richest ten percent of the population'" (quoting United Nations Children's Fund, *At a Glance: Nicaragua*, UNICEF, http://www.unicef.org/infobycountry/nicaragua.html [hereinafter UNICEF])).

[11] Clark & Velazquez*, supra* note 10, at 744.

[12] *Id*. at 759.

[13] *Id*. Its external debt equals about three times the amount of the country's gross domestic product. *Id*. at 769.

[14] *Id*. at 760.

Nicaragua relies heavily on foreign aid,[15] using $1.5 billion to pay its internal debt instead of using the funds to meet social needs, such as education and schoolbooks.[16] There is optimistic research showing recent financial growth in Nicaragua;[17] however, the country is far from achieving the social and economic stability necessary to offer Nicaraguans a quality of life that is not encumbered by inequality and poverty.[18] While attracting foreign investments is one method of providing economic sustainability,[19] foreign investors are more hesitant to invest in Nicaragua than in any other country in Latin America[20] for a variety of reasons—several of which seem to stem from the same deficiency: lack of education.

Explanations for this reluctance are buried in Nicaragua's overwhelming poverty and its low rank on the Human Development Index—a scale the United Nations Development Program (UNDP) uses to gauge quality of life.[21] "Nicaragua ranked 121 out of 174 countries with high, medium, and low development" when the UNDP applied the Human Development Index's "three-pronged indicia[—] life expectancy, *educational attainment*, and income[—]in 1999."[22]

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[15] *Id.* In 1997, foreign grants "provided public finances equivalent to 17.6 percent of the government's revenue." *Id.* (citation omitted).

[16] Stenzel, *supra* note 9, at 710.

[17] Clark & Velazquez, *supra* note 10, at 745 (stating that certain indicators have shown "promise [for] a better life for Latin Americans in general, and Nicaraguans in particular").

[18] Stenzel, *supra* note 9, at 708–14 (discussing Nicaragua's economic issues and social indicators).

[19] E. Borensztein, J. De Gregorio & J-W Lee, *How Does Foreign Direct Investment Affect Economic Growth?*, 45 JOURNAL OF INT'L ECON. 11 (1998). *See also* DARON ACEMOGLU & DAVID AUTOR, LECTURES IN LABOR ECONOMICS: THE BASIC THEORY OF HUMAN CAPITAL 3, *available at* http://www.economics.mit.edu/files/4689; Gary S. Becker, *Human Capital*, *in* THE CONCISE ENCYCLOPEDIA OF ECONOMICS (Library of Econ. & Liberty ed., 2008) *available at* http://www.econlib.org/library/Enc/HumanCapital.html.

[20] Clark & Velazquez, *supra* note 10, at 759.

[21] *Id.* at 760.

[22] *Id.* (emphasis added). *See also* United Nations, *Human Development Reports: Nicaragua*, UNITED NATIONS DEVELOPMENT PROGRAMME, *available at*

Without the proper tools and materials, like academic textbooks, the educational attainment necessary to effectively change the marketplace of a country like Nicaragua into a global competitor is impossible.[23] Moreover, educational development must exceed elementary levels because a population must have capabilities beyond basic reading and writing in order to substantially contribute to development.[24] As law professor Emmanuel Mensah Darkey summarizes:

> [e]ducational materials . . . need to be made accessible to people so that they can enjoy the arts and share in the scientific advancement of the global economy . . . . However, literacy alone is not the determinant of an educated citizenry[;] one that can contribute to development. Educational attainment needs to reach a higher level to ensure human and economic development. Tertiary education plays this important role in human development. It is at this level that people acquire more of the high-level skills necessary to enter the work force and to ultimately contribute to society.[25]

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http://hdr.undp.org/en/countries/profiles/NIC (stating that as of 2014, Nicaragua's rank has dropped to 132); Va. Commonwealth Univ.: Center on Soc'y & Health, *What is Educational Attainment*, PROJECT ON SOCIETAL DISTRESS, *available at* http://www.societyhealth.vcu.edu/Page.aspx?nav=103&scope=0 (defining educational attainment as that which "refers to the number of years of education a person has attended and completed, or the highest degree earned. This includes the number of elementary and high school years completed, participation in college prior to graduation, and varying levels of degree attainment").

[23] *See* Margaret Chon, *Intellectual Property "From Below:" Copyright and Capability for Education*, 40 U.C. DAVIS L. REV. 803, 823 (2007) (stating that "work . . . by the World Bank in the 1970s . . . . [found] that textbook availability was the single most consistent correlate of academic achievement in developing countries, thus justifying public investment in education reading materials") (quoting S.P. Heyneman, *The History and Problems in the Making of Education Policy at the World Bank 1960-2000*, 23 INT'L J. EDUC. DEV. 315, 322–23 (2003)).

[24] Emmanuel Mensah Darkey & Harry Akussah, *Academic Libraries and Copyright Issues in Ghana: The University of Ghana in Focus*, 36 INT'L J. LEGAL INFO. 432, 436 (2008).

[25] *Id.*

Without people trained and educated in science, technology, and the humanities, a developing country like Nicaragua will be unable to utilize new technologies or participate in the global economy.[26]

II. Current Status of Academic Materials in Nicaragua and the Developing World

Today, economic change begins by addressing the critical need for education, which would be revolutionized with the availability of textbooks.[27] Shobhana Sosale, an operations officer of the World Bank explains:

> [T]extbooks are a rare commodity in most developing countries. One book per student . . . is the exception, not the rule, and the rule in most classrooms is . . . severe scarcity or the total absence of textbooks.[28]

The reason for this shortage in Nicaragua is that Nicaragua is too poor to supply its population with textbooks; "[p]overty has been a defining feature of Nicaragua's public education."[29] The limited number of schools in the country do offer free education; however, the schools lack the funds to provide children with the appropriate educational materials, and parents cannot afford the schoolbooks required for their children to obtain an adequate education.[30] The U.K. Commission on Intellectual Property Rights observes:

> In the tertiary sector, the evidence indicates that access to books and other materials for education and research remains a critical problem in many developing

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[26] *Id*.

[27] Clark & Velazquez, *supra* note 10, at 756.

[28] Chon, *supra* note 23, at 822 (quoting Shobhana Sosale, *Introduction to* THE WORLD BANK EDUCATIONAL PUBLISHING IN GLOBAL PERSPECTIVE: CAPACITY BUILDING AND TRENDS 1 (1999) [hereinafter Sosale, WORLD BANK]).

[29] Katarina Tomasevski, *Globalizing What: Education as a Human Right or as a Traded Service?*, 12 IND. J. GLOBAL LEGAL STUD. 1, 67 (2005).

[30] Stenzel, *supra* note 9, at 713.

> countries, particularly the poorest. Most developing countries remain heavily dependent on imported textbooks and reference books, as this sector is often not commercially feasible for struggling local publishers to enter. The prices of such books are beyond the means of most students.[31]

This insufficiency is so dire that Sosale went so far as to label it a "major crisis."[32]

Gaining electronic access to academic resources should remain a priority. However, the international community must focus on relaxing the distribution and reproduction rights as applied to developing countries in order to increase the availability of physical textbooks to children and adults in remote areas, which often lack Internet access.[33] Broadening access to education through the use of the Internet is not an answer to this ongoing disparity—the technological gap between developed and developing countries is far too wide.[34] While relaxing distribution rights relating to digital transference is an imperative proposal to pursue, the majority of populations in countries like Nicaragua lack the necessary technology to benefit from increased textbook distribution and reproduction through electronic transference.[35] The collective majority of

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[31] Peter K. Yu, *Anticircumvention and Anti-Anticircumvention*, 84 DENV. U. L. REV. 13, 46 (2006).

[32] Chon, *supra* note 23, at 822 (quoting Sosale, WORLD BANK, *supra* note 28, at 1).

[33] Alex Pederson, *Financing Energy Access on the Edge of the World*, 21 COLO. J. INT'L ENVTL. L. & POL'Y 355, 362 (2010).

[34] *See* UNICEF, *supra* note 10 (reporting that, as of December 2013, the number of Internet users per 100 in Nicaragua was 13.5, while statistics of developed countries such as the U.S., France, and Germany show numbers in the low-to-mid 80s per 100 users).

[35] Robert Davison et al., *Technology Leapfrogging in Developing Countries—An Inevitable Luxury?*, THE ELECTRONIC JOURNAL ON INFORMATION SYSTEMS IN DEVELOPING COUNTRIES 1 (2000), *available at*, https://www.ejisdc.org/ojs2.../index.php/ejisdc/article/viewFile/5/5 (noting that "[o]ver the last two decades, much of the developed world has been transformed by what are now termed Information and Communication Technologies (ICTs) . . . [t]hese technologies exert an impact on most aspects of our lives . . . [n]otwithstanding these causes, effective use of ICTs is biased by race, gender and

impoverished individuals in the developing world do not have access to electricity, let alone the necessary computer databases required for receiving assignments, lectures, or any other academic materials on-line.[36] Specifically in places like the Atlantic coast of Nicaragua, where

> "[only about] twenty percent of the population has access to electricity. . . . Without energy, populations are locked out of modern education . . ."[37]

Thus, it is crucial to provide physical textbooks to populations, like that of Nicaragua, that cannot benefit from the technological advances of which they cannot access.

The following section explains the legal dilemma surrounding these disparities and will begin with an overview of copyright, generally, along with an explanation of the international position on reproduction and distribution rights. Because the case has generated much controversy since its decision, reactions from *Kirtsaeng* will be touched upon as well, particularly as it pertains to the exhaustion of rights and copyright distribution provisions.

III. The Legal Dilemma: How International Agreements and the Current Copyright Laws Restrict the Reproduction and Distribution of Books

a. Copyright at a Glance

Daniel C.K. Chow and Edward Lee concisely explain the definition and historical context surrounding copyright law in their casebook, *International Intellectual Property: Problems, Cases, and Materials*. As discussed in Chapter 2, copyright laws of all countries

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location. For example . . . perhaps one in ten thousand [enjoy Internet connectivity] outside South Africa") (emphasis added).

[36] *Id*. (stating that "[t]he technologies have, to a large extent, been developed in, and for the cultural and social norms of, a small number of developed countries in Western Europe and North America as well as a few more in East and South East Asia, and Australia").

[37] Pederson, *supra* note 33, at 362.

within the WTO[38] are governed by two important international copyright agreements: 1) the TRIPS Agreement; and 2) Articles 1–21 of the Berne Convention (Paris 1971), and its Appendix (collectively "Berne Convention").[39] Copyright can be defined as a collection of exclusive rights permitted to authors, "allowing them to control and prevent different uses of their works by others."[40] A copyright embodies "the rights of reproduction or copying, distribution, public performance, public display, and the right to make derivative works."[41] Historically, copyright laws were established along two distinct traditions around the world: 1) a utilitarian approach from England; and 2) an author's right tradition from continental Europe.[42] The British Parliament enacted its first copyright act in 1710 (called the Statute of Anne[43]), which:

> intended to provide authors with incentives for the creation of new works and *to encourage learning* in England with the greater availability of works.[44]

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[38] *Understanding the WTO: The Organization – Members and Observers*, WORLD TRADE ORGANIZATION, http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (last visited Mar. 2, 2013) (reporting that as of March 2, 2013, there are 159 members of the WTO, including developed nations like France, Germany, the U.S., the U.K., and member states of the European Union (EU); as well as developing nations such as Nicaragua, Costa Rica, China, Egypt, Ghana, Haiti, India, and many more. A complete list appears on the WTO's website).

[39] Berne Convention for the Protection of Literary and Artistic Works, Sep. 9, 1886, 25 U.S.T. 1341, 828 U.N.T.S. 221 (as revised in Paris, France, Jul. 24, 1971). *See also* DANIEL C.K. CHOW & EDWARD LEE, INTERNATIONAL INTELLECTUAL PROPERTY: PROBLEMS, CASES, AND MATERIALS 86 (2d ed. 2012) (defining derivative works as, in the sense of copyright, works that are byproducts, imitations, or spin-offs of an original work).

[40] CHOW & LEE, *supra* note 39, at 84.

[41] *Id.*

[42] *Id.*

[43] Statute of Anne, 8 Anne, c. 19 (1710).

[44] CHOW & LEE, *supra* note 39, at 84 (emphasis added).

Thus, "copyright law was based on a utilitarian rationale—copyrights were granted to serve a larger end for the public good."[45] Under the utilitarian rationale, monetary compensation provided to authors through copyrights fell second to the primary goal of maintaining incentives for the production of works for the public.[46]

Contrastingly, "continental European countries with civil law systems followed what may be called the tradition of the author's right."[47] This "author's right" standard focused on prioritizing the authors' power, as authors were "entitled to their creations as a matter of natural right."[48] According to Chow and Lee:

> Elements of both theories and traditions may [have] inform[ed] the development of copyright laws in the same countries, although with varying degrees of influence . . . . [R]egardless of the tradition that most heavily influenced a country's copyright law, today the international copyright conventions require a certain set of minimum standards that will be common to all countries.[49]

Since all WTO Members are required to enact specified protection under TRIPS and the Berne Convention, the ability to reproduce and distribute copyrighted works without permission is extremely limited.[50] TRIPS recognizes the traditions of author's rights and of public interest, and combines elements of both in one section for "Copyright and Related Rights."[51]

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[45] *Id*. at 84–85.

[46] *Id*. at 85.

[47] *Id*.

[48] *Id*.

[49] *Id*. at 86.

[50] Grace P. Nerona, *The Battle Against Software Piracy: Software Copyright Protection in the Philippines*, PACIFIC RIM LAW & POLICY JOURNAL ASSOCIATION 660 (2000) (referencing the Berne Convention: "Under TRIPS, members must grant authors of copyrightable subject matter *exclusive rights*, including the right to reproduce, adapt, translate, publicly perform, and communicate their works) (emphasis added). Berne, *supra* note 39, at Arts. 8, 9(1), 11(1)(i), 12.

[51] CHOW & LEE, *supra* note 39, at 86.

b. Copyright Reproduction and Distribution: Exhaustion of Rights, the First Sale Doctrine, and the *Kirtsaeng* Reaction

The right of reproduction is regarded as the most fundamental entitlement under copyright—the right to copy.[52]

> Article 9(1) of Berne recognizes that '[a]uthors of literary and artistic works protected by [the Berne] Convention shall have the exclusive right of authorizing the reproduction of these works, in any manner or form.'[53]

While this provision in Berne requires countries to acknowledge the rights of authors to proscribe verbatim copying of their entire works, TRIPS 9(2) prohibits countries from providing copyright protection for ideas, but allows protection of an author's particular *expression* of an idea.[54]

Distribution rights, on the other hand, vary in scope from country to country.[55] For instance, several countries, such as France, consider the distribution right of copies as part of the right of reproduction, while other countries, like the U.S., consider distribution as a separate right altogether.[56] While most countries recognize an author's interest in the distribution of their works, both the Berne Convention and TRIPS Agreement do not contain a provision addressing a general distribution right.[57] This is due in part to the fact that "the distribution right implicates a number of issues for which

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[52] *Id*. at 167.

[53] *Id*. (quoting Berne, *supra* note 39, at Art. 9(1)).

[54] *Id*.

[55] *Id*. at 168.

[56] *Id*. at 168. (citing 17 U.S.C. § 106(3) and PAUL E. GELLER & MELVILLE B. NIMMER, INTERNATIONAL COPYRIGHT LAW AND PRACTICE § 8[1][b][i][A] (France) (2004), and noting that "[t]he Copyright Act of the United States 'grants several exclusive rights to copyright owners including the exclusive rights to distribute copyrighted works'").

[57] CHOW & LEE, *supra* note 39, at 168.

countries have failed to achieve international agreement."[58] The exhaustion of rights after the first sale of a copy of a work is the biggest issue that continues to divide countries.[59]

Exhaustion of rights "refers to the termination of the rights of an author to control the distribution of a copy of the work after its first sale."[60] A number of countries consider the right of the author exhausted by a sale of the work anywhere in the world (i.e., international exhaustion),[61] while other countries deem the right of the author exhausted only if the book is sold within the nation of the origin of the work (i.e., national exhaustion).[62] Even if the international community could reach an agreement on the exhaustion of rights issue, it would not solve the problem of the lack of educational material in developing countries. Adopting international exhaustion under TRIPS or Berne may help free up distribution constraints surrounding academic texts; however, this assumes that the texts can be purchased in the first place. As stated earlier, parents and students in Nicaragua, (an exemplar of the developing world as a whole,) lack the funds to purchase textbooks or materials for school.[63] As if education attainment was not difficult enough already, repercussions of the *Kirtsaeng* decision has caused a visceral reaction among publishing companies that seek to limit the application of the first sale doctrine by increasing textbook prices.[64]

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[58] *Id.*

[59] *Id.*

[60] *Id.* For example, "[i]f a U.S. author sells a book to a purchaser in the U.S., then the purchaser is free to resell the book or to donate it to a local library, all without permission of the author." *Id.* (using an example to assist with defining exhaustion of rights and the first sale doctrine under 17 U.S.C. § 106(3)). For further information and an interesting read about the Copyright Act and authors' rights, *see* Guy A. Rub, *Contracting Around Copyright: The Uneasy Case for Unbundling of Rights in Creative Works*, 78 U. CHI. L. REV. 257 (2011).

[61] CHOW & LEE, *supra* note 39, at 168.

[62] *Id.*

[63] Stenzel, *supra* note 9, at 713 (noting that "[e]ven though schools are free, parents cannot afford the books and uniforms required for school attendance").

[64] Miggie Pickton, *Ebook price increases from three publishers*, THE UNIVERSITY OF NORTHAMPTON, July 5, 2013, *available at*

Supap Kirtsaeng moved to the U.S. from Thailand to attend Cornell University.[65] To aid in funding his education, Kirtsaeng had friends and family purchase textbooks in Thailand for a fraction of their U.S. price and send them to him where he sold them for a remarkable profit.[66] After selling textbooks for two years on websites like eBay®, Kirtsaeng's profits exceeded one million dollars.[67] John Wiley & Sons, a publisher of textbooks, sued Kirtsaeng for copyright infringement.[68] Kirtsaeng based his defense on the first sale doctrine, which is codified by Section 109(a) of the U.S. Copyright Act.[69] As mentioned earlier,[70] if the conditions of Section 109(a) are met notwithstanding the exclusive rights of the copyright owner, an owner of a copy of copyrighted work (e.g., the owner of a CD or a book) lawfully made under Section 109(a) is allowed to sell or otherwise dispose of the possession of that copy without a license.[71] In effect, the Supreme Court had to decide whether the codified first sale doctrine applied to internationally manufactured copies of copyrighted works.[72] In a 6-3 decision, the Court held that the first sale doctrine applies to

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http://researchsupporthub.northampton.ac.uk/2013/07/05/ebook-price-increases-from-three-publishers/. For instance, Wiley, the publishing company involved in the decision, increased the prices for international editions as well as the international student editions of textbooks.

[65] Guy A. Rub, *The Economics of* Kirtsaeng v. John Wiley & Sons, Inc.*: The Efficiency of a Balanced Approach to the First Sale Doctrine*, 82 FORDHAM L. REV. RES GESTAE 42 (2013) (referencing *Kirtsaeng*, 654 F.3d at 213–14).

[66] *Id*.

[67] *Id*.

[68] *Id*. at 42, 43. (citing John Wiley & Sons, Inc. v. Kirtsaeng, No. 08-cv-7834 (DCP), 2009 WL 3364037 (S.D.N.Y. Oct. 19, 2009), *rev'd and remanded* Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351 (2013).

[69] *Id*. (citing 17 U.S.C. §§ 106(3), 602(a) (2006)).

[70] CHOW & LEE, *supra* note 39, at 168.

[71] *Id*.

[72] Rub, *supra* note 65, at 43.

copyrighted works lawfully manufactured abroad.[73] Thus, the importation and resale of goods made abroad and protected by copyright is legal, and Kirtsaeng was not held liable.[74] While the ramifications of this decision are still surfacing, albeit slowly,[75] discussions amongst publishers, manufacturers, and other key-members in the industry exude major concerns, as one attorney summarizes:

> The ruling for *Kirtsaeng* will send a tremor through the publishing industries, harming both U.S. businesses and consumers around the world. [The] decision will create a strong disincentive for publishers to market different versions and sell copies at different prices in different regions. The practical result may very well be that consumers and students abroad will see dramatic price increases or entirely lose their access to valuable U.S. resources created specifically for them.[76]

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[73] Gary Shapiro, *Supreme Court Gives American Consumers Victory Over Copyright Owners in Kirtsaeng vs. John Wiley & Sons*, FORBES (Mar. 20, 2013), http://www.forbes.com/sites/garyshapiro/2013/03/20/supreme-court-gives-american-consumers-victory-over-copyright-owners-in-kirtsaeng-vs-john-wiley-sons/.

[74] Rub, *supra* note 65, at 43. Although Rub's article was published before the Supreme Court decision, the assessment of his analysis still applies to the Court's holding.

[75] John A. Kvinge, Kirtsaeng v. John Wiley & Sons, Inc.*: Supreme Court Finds Expansive Scope for First Sale Doctrine*, LARKIN HOFFMAN ARTICLES AND RESOURCES (July 24, 2013), http://www.larkinhoffman.com/news/article_detail.cfm?ARTICLE_ID=983 (providing the following commentary: "First, publishers argue that it will be much more difficult to provide lower-priced international editions of textbooks without undercutting the price of U.S. versions . . . Second, *Kirtsaeng* raises questions regarding the application of the first-sale doctrine to other areas of law, such as patents . . . Third, *Kirtsaeng* may encourage publishers to promote adoption of e-textbooks instead of paper textbooks. Unlike a physical copy of a book, e-books typically come with a license agreement or digital rights management software that allows only one reader to use the book, thus preventing resale of an e-textbook to others").

[76] Mark Sherman, *Supreme Court Backs Student in Textbook Copyright Case*, THE HUFFINGTON POST, Mar. 19, 2013, *available at* http://www.huffingtonpost.com/2013/03/19/supreme-court-copyright-textbooks_n_2912490.html (quoting Keith Kupferschmid, general counsel for the

By exploring the international agreements that have authority over the copyright laws, one will discover how reproduction and distribution rights are further restricted. The following two sections are dedicated to the WTO and the two most significant treaties, namely TRIPS and Berne. These treaties represent the foundation of exclusive rights, minimal protection, compulsory licensing, and so-called flexibilities surrounding copyright.[77]

c. "Restricted Flexibilities" of TRIPS

TRIPS, as it stands today, offers an imbalanced and restricted approach to facilitating intellectual property rights (IPRs).[78] The TRIPS Agreement is an international treaty that resulted from the WTO's Uruguay Round Negotiations in 1994.[79] The treaty is signed by all member states of the WTO, which includes both developed and developing countries from all over the world.[80] Pronounced in its

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Software and Information Industry Association). For more information on academic texts sold in various markets, *see generally* U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-05-806, COLLEGE TEXTBOOKS: ENHANCED OFFERINGS APPEAR TO DRIVE RECENT PRICE INCREASES 21–25 (2005), *available at* www.gao.gov/new.items/d05806.pdf.

[77] CHOW & LEE, *supra* note 39.

[78] United Nations Conference on Trade and Development, New York, U.S./Geneva, Switz., 2010, *Intellectual Property in the World Trade Organization: Turning it into Developing Countries Real Property*, UNCTAD/DITC/TNCD/2006/8, 7, 8 (2010), *available at* http://unctad.org/en/docs/ditctncd20068_en.pdf [hereinafter Trade and Development Conference] (stating that "[m]any observers and commentators . . . consider the TRIPS Agreement to be unbalanced, exhibiting certain 'development deficits' . . . [H]aving provisions relating to patents that are strictly worded for the benefit of the patent holders and having less strictly worded language for issues such as public health, transfer of technology and socio-development objective turns TRIPS into a lopsided agreement, with mandatory provisions protecting IPRs right holders, and best endeavor provisions befitting public interest aspects of IPRs and broader development objectives").

[79] *Understanding the WTO: The Agreements – Intellectual property: protection and enforcement*, WORLD TRADE ORGANIZATION, *available at* http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm7_e.htm.

[80] Trade and Development Conference, *supra* note 78, at 6 (stating WTO members involvement with the TRIPS Agreement).

preamble, the treaty's objective is to increase worldwide free trade and economic development by reducing impediments to international trade while promoting adequate protection of intellectual property rights.[81] The WTO acts as a forum that regulates "the rules of trade between nations at a global or near-global level."[82] Agreements under the WTO are typically lengthy and complex because the legal texts cover an expansive scope of activities.[83] Nevertheless, there remains a number of fundamental principles that run throughout all of the WTO Agreements, TRIPS included.[84] Taken almost verbatim, the principles of the WTO are as follows:

The trading system should be:

- **without discrimination**—a country should not discriminate between its trading partners (giving them equally "most-favoured nation" or MFN status), and it should not discriminate between its own and foreign products, services or nationals (giving them "national treatment");

- **freer**—barriers [should] com[e] down through negotiation;

- **predictable**—foreign companies, investors and governments should be confident that trade barriers (including tariffs and non-tariff barriers) should not be raised arbitrarily; tariff rates and market-opening commitments are "bound" in the WTO;

- **more competitive**—discouraging "unfair" practices such as export subsidies and dumping products at below cost to gain market share; and

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[81] TRIPS, *supra* note 5, at pmbl.

[82] *Understanding the WTO Basics: What is the WTO?*, WORLD TRADE ORGANIZATION, http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact1_e.htm (last visited Dec. 2014).

[83] *Id*.

[84] *Id*.

- **more beneficial for less developed countries—** giving them more time to adjust, greater flexibility, and special privileges.[85]

Knowing that TRIPS adheres to all of these principles, it is unsettling to find the Agreement littered with so much language surrounding copyright restrictions.[86] While there are provisions for granting compulsory licenses,[87] they have not served as an optimal solution to the restrictive nature of copyright law under TRIPS. As it turns out, developing countries were willing to agree to TRIPS because of the assurances of free trade offered in non-intellectual property industries.[88] However, it remains unlikely that an uneducated workforce will be able to take advantage of these opportunities in the first place.[89]

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[85] *Id.*

[86] CHOW & LEE, *supra* note 39, at 166, 167 (discussing the exclusive rights provided to authors under the Berne Convention with additions from the TRIPS Agreement: "To these minimum standards for rights under Berne, the TRIPS Agreement adds a provision for rental rights in computer program and cinematographic works, although in a conditional way (Article 11)).

[87] *See* World Health Organization, *Compulsory License*, ESSENTIAL MEDICINES AND HEALTH PRODUCTS INFORMATION PORTAL, http://apps.who.int/medicinedocs/en/d/Jh1459e/6.3.html (last visited Apr. 22, 2014) (providing that "[a] compulsory license is an authorization that is granted by the government without the permission of the patent holder . . . Under the TRIPS agreement, countries have the right to issue such licenses . . . [However,] for granting compulsory licenses, countries can only use those grounds that are allowed by their national legislation"). *See also* TRIPS, *supra* note 5, at Art. 31.

[88] Trade and Development Conference, *supra* note 78, at 7 (emphasizing the context surrounding negotiations around TRIPS: "Developing countries had hoped to achieve a balance between gains arising from bringing agriculture into the remit of WTO and difficulties arising from other areas, notably services and intellectual property rights").

[89] *Id.* at 6 (listing "lessons learned" from the negotiations resulting in TRIPS: "First, for a majority of developing countries (leaving aside a handful) the technical expertise necessary to handle the negotiations was simply not available. Second, and perhaps flowing from the first, the developing countries were reactive in their approach, rather than proactively setting the agenda. In sum, similar to several other areas of the Uruguay Round Negotiations, the extent of developing country

TRIPS provides certain minimum standards for the protection of IPRs with a number of provisions allowing member states to make further restrictions and limitations.[90] TRIPS not only sets minimum standards, but it also grants certain flexibilities.[91] These flexibilities, however, are oftentimes restricted through bilateral agreements (typically initiated by developed countries) based on a concern for providing greater IPR protection.[92] There is an underlying debate surrounding the challenge of ensuring benefits of progression to the developing world through this multifaceted labyrinth of rules and policies exhibiting from TRIPS.[93]

Analysts argue over the extent of the development deficits caused by TRIPS, as evidence shows developed countries benefitting far more than less developed countries.[94] Industrialized countries are concerned with maintaining increased IPR protection in order to protect the economic interests of the majority of IPR holders (e.g., authors and publishers); those of which predominantly practice in developed countries.[95] On the other hand, developing countries emphasize the critical need for loosening IPR protection in order to promote social and economic welfare by providing greater access to things like medicines and educational texts.[96] The fact that developing nations still lack critical medicines and basic academic resources lends credence to the idea that developed nations desiring strict protection over IPRs dictated the terms of TRIPS.

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participation in this particular area was far from optimal, leading to concern that the outcome of the negotiations was one-sided").

[90] *Id*. at 3.

[91] *Id*.

[92] *Id*. at 11.

[93] *Id*. at 1, 2.

[94] Trade and Development Conference, *supra* note 78, at 7–8.

[95] *Id*. at 13–14.

[96] *Id*. at 1 (stating simply that "[t]here is a need for flexibility allowing each country to design the IP system that best suits its particular developmental needs, and to carefully weigh the costs and benefits of IPRs in each specific circumstance").

If Member nations stand true to the principles of the WTO and TRIPS, the people of countries like Nicaragua should not be deprived of medicines or tertiary education at a time when other nations have access to emergency clinics 24 hours a day and post-secondary courses at the touch of an iPad® screen. One scholar refers to TRIPS

> as 'the most egregious example' of how the developed world uses international trade agreements to impose costly and onerous obligations on poor countries.[97]

The U.K. Commission on Intellectual Property Rights and Development also acknowledges the major imbalance TRIPS poses for enhancing development.[98] Every provision of TRIPS should be interpreted with an eye toward promoting economic and social welfare to each Member of the Agreement, as stated in its principles and objectives.[99]

Despite the flexibilities provided therein, TRIPS is still identified as benefitting developed nations because of its lack of public interest exceptions.[100] The first paragraph of Article 1 allows WTO Members to provide for "more extensive protection" than what is required in the Agreement, which seems to encourage higher standards of protection rather than allowing the utilization of flexibilities.[101] Examples of these "restricted flexibilities" are further explored through the authorization of compulsory licensing found under Article

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[97] *Id.* at 9 (quoting a seminal essay by Nancy Birdsall et al., *How to Help Poor Countries*, FOREIGN AFFAIRS, July/Aug. 2005).

[98] *Id. See also* COMMISSION ON INTELLECTUAL PROPERTY RIGHTS, INTEGRATING INTELLECTUAL PROPERTY RIGHTS AND DEVELOPMENT POLICY 21 (2002), *available at* http://www.iprcommission.org/graphic/documents/final_report.htm (stating that "[e]conometric models have been constructed to estimate what would be the global impact of applying the TRIPS agreement (i.e., globalizing minimum standards for intellectual property protection). The latest estimate, by the World Bank, suggests that most developed countries would be the major beneficiaries of TRIPS in terms of enhanced value of their patents . . . Developing countries . . . would be the net losers").

[99] TRIPS, *supra* note 5, at Arts. 7 & 8.

[100] Trade and Development Conference, *supra* note 78, at 8.

[101] *Id.* at 12.

31 of TRIPS and the Berne Appendix.[102] Borrowing from patent law, the following definition of a compulsory license sounds like an answer to the restrictions on copyright distribution rights:

> [A] compulsory license is a tool to restrain private rights (e.g., those of a patent) in favour of the public interest (e.g., the interest of having technical knowledge more immediately accessible).[103]

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[102] *See generally Overview: The TRIPS Agreement*, WORLD TRADE ORGANIZATION, http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm (explaining the relationship between the Berne Convention, TRIPS, the Berne Appendix, and the origin of TRIPS: "During the Uruguay Round negotiations, it was recognized that the Berne Convention already, for the most part, provided adequate basic standards of copyright protection. Thus it was agreed that the point of departure should be the existing level of protection under the latest Act, the Paris Act of 1971, of that Convention. The point of departure is expressed in Article 9.1 under which Members are obliged to comply with the substantive provisions of the Paris Act of 1971 of the Berne Convention, i.e. Articles 1 through 21 of the Berne Convention (1971) and the Appendix thereto. However, Members do not have rights or obligations under the TRIPS Agreement in respect of the rights conferred under Article 6*bis* of that Convention, i.e. the moral rights (the right to claim authorship and to object to any derogatory action in relation to a work, which would be prejudicial to the author's honour or reputation), or of the rights derived therefrom. The provisions of the Berne Convention referred to deal with questions such as subject-matter to be protected, minimum term of protection, and rights to be conferred and permissible limitations to those rights. The Appendix allows developing countries, under certain conditions, to make some limitations to the right of translation and the right of reproduction. In addition to requiring compliance with the basic standards of the Berne Convention, the TRIPS Agreement clarifies and adds certain specific points").

[103] Trade and Development Conference, *supra* note 78, at 37. *See also Intellectual Property: Information—Procedures for notifying and sharing information: Berne and Rome conventions*, WORLD TRADE ORGANIZATION, http://www.wto.org/english/tratop_e/trips_e/trips_notif6_bernerome_e.htm, (summarizing rights under the Berne Appendix which "allows developing countries, under specified circumstances, to provide compulsory licenses for the translation and/or reproduction of works for systematic instructional activities . . ." however, not without adhering to certain provisions). *See also* Berne, *supra* note 39, at Appendix, Art. 1, Arts. 2(3)(b), 4(2), 4(4)(c)(4), 5.

However, the TRIPS provisions granting compulsory licenses are wrapped in problematic conditions.[104]

d. TRIPS, the Berne Appendix, and the Evasive Compulsory License

Compulsory licenses in the distribution and reproduction realms of copyright present a potential solution to the crisis of inadequate teaching materials in Nicaragua and the rest of the developing world. However, some conditions contained in TRIPS and Berne may be enough of a barrier to cause evolving countries to look elsewhere for a more accommodating strategy.[105] Article 31 of TRIPS, (referred to as, "Other Use Without Authorization of the Right Holder,") provides governments the authorization for compulsory licensing; however, there are also numerous requirements that must be met before licenses can be approved.[106] Of these, the three main conditions are: 1) the licensee needs to make an effort to negotiate a voluntary license from the original right holder on commercial terms; 2) the government must provide for a remuneration or fee to the right holder; and 3) the licensed use must be predominantly for the supply of the domestic market.[107]

The developing world lacks resources and means to satisfy these conditions in order to take advantage of compulsory licenses for distributing and reproducing textbooks. Article 31 of TRIPS aside, the convoluted language in Berne surrounding such licenses also impacts the developing world's ability to use licenses in copyright.[108]

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[104] CHOW & LEE, *supra* note 39, at 71 (stating that "TRIPS allows for limited exceptions to the exclusive rights of patent and copyright . . . [however,] [b]ecause many developing countries in need of pharmaceuticals (*or, for the argument of this article, for educational materials*) do not have domestic manufacturing (*or publishing*) capacity, this condition effectively nullified any ability to invoke compulsory licensing") (emphasis and commentary added).

[105] *Id*.

[106] TRIPS, *supra* note 5, at Art. 31. *See also* Donald Harris, *TRIPS After Fifteen Years: Success or Failure, As Measured By Compulsory Licensing*, 18 J. INTELL. PROP. L. 367, 384 (2011).

[107] *See supra* note 106.

[108] ŠTRBA, *supra* note 3, at 91–97.

In addition to these conditions, the procedural requirements of the Berne Appendix remain overly cumbersome to developing nations.[109] In order to take advantage of the Berne Appendix, a country must make a Declaration to the General Director of the World Intellectual Property Organization (WIPO) at the time of ratification.[110] The Declaration is renewable after ten years if the nation notifies the Director General not more than fifteen, but not less than three, months before the Declaration expires.[111] These procedural requirements may not seem overly burdensome at a glance, but they add more work to the already short-staffed (or nonexistent) intellectual property offices in the developing world.[112]

It has been argued that since the Berne Appendix is procedurally complicated, the developed nations that wrote it had no intention of making the agreement beneficial for developing Members.[113] As one analyst summarized:

> This lack of intention by developed countries to cooperate with developing countries in facilitating access to copyrighted works for educational purposes is not new to the Berne system. The discussions at Stockholm on the content of the three-step test and the Stockholm Protocol reflect this situation as well. It was therefore important for developed countries that the Appendix is procedurally complicated, so as to make its implementation impossible.[114]

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[109] *Id*. at 92.

[110] Berne, *supra* note 39, at Appendix, Arts. 1–6. *See also* ŠTRBA, *supra* note 3, at 91–97.

[111] ŠTRBA, *supra* note 3, at 91–97.

[112] *Id*.

[113] *Id*. at 96–97.

[114] *Id*. at 96. *See also* Eric J. Schwartz, *An Overview of the International Treatment of Exceptions*, 57 J. COPYRIGHT SOC'Y 473, 483–84 (2010) (noting that the three-step test was first adopted at the Stockholm Conference in 1967, and that it "allows member countries to 'cut down' the reproduction right and to permit works to be reproduced 'in certain special cases,' [that do] not conflict with a normal exploitation [or] prejudice the legitimate interests of the author'" (quoting CLAUDE MASOUYE,

Rather than fulfilling the WTO's objectives of promoting development and building capacity in the developing countries, the Berne Appendix functions as an impediment to the economic and social welfare of countries like Nicaragua.[115] By making it excessively complicated to obtain compulsory licenses for the reproduction and distribution of textbooks, the developing world continues to lack opportunities to achieve economic and social sustainability.[116] This complexity only restricts IPRs, and fails to prioritize development and user access to information.[117] While protecting the creative rights of authors is important, the next section explores how the current copyright landscape holds this protection far above the public concern for user-access to information.

e. Balancing Author Rights and User-Access to Information

GUIDE TO THE BERNE CONVENTION FOR THE PROTECTION OF LITERARY AND ARTISTIC WORKS (PARIS ACT, 1971) 55 (1978)).

[115] Ruth L. Okediji, *The International Copyright System: Limitations, Exceptions and Public Interest Considerations for Developing Countries*, 15 INTERNATIONAL CENTRE FOR TRADE AND SUSTAINABLE DEVELOPMENT i, 29–30 (2006), *available at* http://unctad.org/en/Docs/iteipc200610_en.pdf (emphasizing the need for developing countries to have access to "bulk copies of copyrighted content." Okediji continues by reprimanding the "unduly complex and burdensome requirements associated with [the Berne Appendix]").

[116] *Id.* at 29. Okediji advocates that the Berne Appendix "must be reformed to reflect changing conditions in developing countries and also to facilitate a more expedient process for utilizing compulsory licensing to gain bulk access" (referencing Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants not to Compete*, 74 N.Y.U. L. Rev. 575 (1999)).

[117] *Id.* at 15 (stating concisely: "With large populations and an interest in education for development purposes, the ability of a copyright owner to refuse permission to reproduce and/or charge significant prices for such permission necessitate[es] a compromise between developed and developing countries. The purpose of the Appendix was to make copyrighted works more accessible and in circulation in developing countries . . . [b]y all accounts, the compromise—the Berne Appendix—has been a failure").

Internationally, copyright law features greater concern for economic rights than for "facilitating access to copyrighted works."[118] The copyright system seeks to "balance the need to protect the work of creators with the right of users to access information."[119] On behalf of advocating for the public welfare of developing countries, many scholars encourage copyright instruction to be more liberalized in order to assist in economic and social development, particularly in areas of education.[120] Authors and publishing organizations in the developed world, on the other hand, consider compulsory licensing of academic materials as a form of economic assistance to developing countries.[121] As noted by Susan Isiko Štrba,

> [u]nsurprisingly, a request for access to copyrighted works to fulfill an educational purpose is considered by copyright owners as asking for economic subsidization. . . Allowing access to copyrighted products is viewed as ceding economic rights rather than fulfillment of a public interest of users.[122]

Authors and creators of intellectual property retain rights in their works and deserve compensation for their efforts. However, the international copyright system, as it stands, strongly favors the economic rights of the author over the rights of users to access copyrighted works.[123] The public good is also underserved by the current copyright system.[124] Compulsory licensing offers

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[118] ŠTRBA, *supra* note 3, at 97.

[119] Darkey & Akussah, *supra* note 24, at 433.

[120] ŠTRBA, *supra* note 3, at 97.

[121] *Id.*

[122] *Id.*

[123] Okediji, *supra* note 115, at 15 (noting that since the international copyright system is largely controlled by the Berne Convention and TRIPS as described throughout this manuscript, "access to multiple copies of a copyrighted work at affordable prices—goes directly to the right of an author to control the reproduction of the work").

[124] *Id.*

> an opportunity for authors to consider the non-economic side of their concession and view compulsory licenses as a contribution which assists in the building of developing nations' education and culture.[125]

Put differently, after authors obtain compensation from sales within the borders of the developed world and with the enforcement of copyright anti-circumvention laws, public policy should value opportunities to assist in the economic and social development of struggling nations by improving access to authors' works.[126]

By creating an even balance between user access to information and right-holder protection, economic sustainability and social welfare will both be held as equal priorities. Other trade agreements continue to grapple with balancing right-holder protection and equal access to information.[127] Part IV of this article analyzes how free trade agreements increase intellectual property protection without accommodating user rights in developing nations, and demonstrates that, although helpful in some ways, these agreements prevent countries like Nicaragua from opportunities for economic growth.

IV. Legal Responses and Attempted Solutions

a. The FTA Approach: CAFTA and Bilateral Agreements

Free trade agreements (FTAs) are seldom free.[128] As noted by one commentator, FTAs, "while lessening protectionist measures, stop

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[125] Basalamah, *supra* note 8, at 524.

[126] June M. Besek, *Anti-Circumvention Laws and Copyright: A Report from the Kernochan Center for Law, Media and the Arts*, COLUM. J. L. & ARTS, 385, 389 (2004) (explaining anti-circumvention laws as "designed to encourage authors and copyright owners to explore new business models and methods of distribution, and to provide consumers with a range of choices for experiencing copyrighted works, at different price and convenience levels").

[127] *See infra* note 133.

[128] *See* Jessica K. Hodges, Comment, *When Enough is Too Much: The Threat of Litigating NAFTA's Constitutionality and a Lost Chance to Examine Undue Process in Antidumping and Countervailing Duty Determinations*, 15 GEO. MASON L. REV. 201, 201 (2007).

far short of abolishing all trade barriers."[129] For instance, the U.S. Department of Commerce claims, "Trade Agreements reduce barriers to U.S. exports, and . . . enhance the rule of law in the FTA partner country."[130] However, they do so by enhancing protection of IPRs in countries like the U.S.[131] Trade agreements, like the Central America Free Trade Agreement (CAFTA) and bilateral treaties, attempt to improve economic potential for the parties involved;[132] yet they fail to respond to overall issues of social welfare. Additionally, simply amending CAFTA to prioritize social welfare issues is not enough to make a substantial change from a global perspective, as it does not involve non-signatory countries. While the notion of economic stability is optimistic, the strict protection of IPRs that CAFTA requires remains overly burdensome to some signatories.[133]

The U.S. signed CAFTA on August 5, 2004 with the Dominican Republic and five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.[134] The Agreement sought to facilitate trade relations and integration among the participatory parties, break down barriers impeding access to services, and to create new economic opportunities.[135] CAFTA promises

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[129] *Id.*

[130] International Trade Administration, *Free Trade Agreements*, U.S. DEP'T OF COMMERCE, *available at* http://www.trade.gov/fta/.

[131] *See infra* note 137.

[132] International Trade Administration, *Free Trade Agreements,* U.S. DEP'T OF COMMERCE, *available at* http://www.trade.gov/fta/.

[133] Román Macaya, Briefing Paper, *The Economic and Social Consequences of an Overprotection of Intellectual Property Rights in CAFTA*, NATIONAL CHAMBER OF GENERIC PRODUCTS 1, 1 (2005), *available at* http://www.cptech.org/ip/health/trade/cafta/macaya042005.doc (stating that "[t]he IPR provisions in CAFTA-DR significantly increase the heavy burden on small and fragile economies that has already assumed TRIPS commitments by eliminating the flexibilities allowed under TRIPS and increasing the monopoly power of a few large corporations through more stringent exclusionary rules").

[134] *CAFTA-DR (Dominican Republic-Central America FTA)*, Executive Office of the President: Office of the United States Trade Representative, ¶1, http://www.ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta.

[135] *Id.*

economic developments for the Central American signatories involved; however, it is much more demanding on these countries than it is on the U.S.[136]

Chapter 15 of CAFTA[137] relates to IPRs, stating that CAFTA

> complements and enhances existing international standards for the protection of intellectual property and the enforcement of intellectual property rights, *consistent with U.S. law*.[138]

CAFTA then calls for all parties to ratify or accede to the WIPO Copyright Treaty by the time CAFTA took effect.[139] CAFTA thus placed strenuous demands on the developing countries that have not yet ratified the mandatory IP treaties listed in the Agreement.[140] Since the U.S. is already a party to these mandatory IP treaties, all the other parties involved are at a disadvantage.[141] The requirements of CAFTA, therefore, are discriminatory against developing countries within the General Provision section of the chapter concerning IPRs.[142] Unfortunately, the bilateral treaty between the U.S. and Nicaragua

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[136] Macaya, *supra* note 133, at 3.

[137] Dominican Republic–Central America–United States Free Trade Agreement Ch. 15, Aug. 5, 2004 [hereinafter CAFTA], *available at* http://www.ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta/final-text.

[138] *The Dominican Republic – Central America – United States Free Trade Agreement: Summary of the Agreement*, EXECUTIVE OFFICE OF THE PRESIDENT: OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, http://www.ustr.gov/webfm_send/2632 [hereinafter USTR CAFTA Summary].

[139] CAFTA, *supra* note 137, at Art. 15.1.2(a).

[140] USTR CAFTA Summary, *supra* note 138 (pointing out that Parties are required to ratify or accede to the WIPO Copyright Treaty, WIPO Performances and Phonograms Treaty, the International Convention for the Protection of New Varieties of Plants, the Trademark Law Treaty, the Brussels Convention Relating to the Distribution of Programme-Carrying Satellite Signals, and the Patent Cooperation Treaty).

[141] Macaya, *supra* note 133, at 1.

[142] USTR CAFTA Summary, *supra* note 138.

does not fair Nicaragua much better, as the treaty fails to alleviate CAFTA's arduous demands.[143]

b. Bilateral Agreement of Nicaragua and the U.S.

The developing world adopted TRIPS with the belief that regional and bilateral agreements would be "replaced by the multilateral forum of the WTO."[144] Since the Uruguay negotiations, developed countries have used regional and bilateral agreements to push developing countries to adopt higher standards of IPRs.[145] For example, the U.S. used the multi-lateral North American Free Trade Agreement (NAFTA) to encourage Mexico and Canada to implement "new domestic legislations for IP [right] protection."[146] As mentioned previously, CAFTA is another example of a multi-lateral agreement with additional IPR provisions. With these regional and bilateral agreements soaring between developed nations and much of the developing world, countries like Nicaragua are constantly pressured to heighten IPR protections in order to avoid sanctions from developed nations. For example, the 1998 Agreement Concerning Protection of IP Rights between the U.S. and Nicaragua ("the 1998 Agreement") pressured Nicaragua to improve its IPR protections.[147]

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[143] CAFTA, *supra* note 137, at Ch. 1, Art. 1.2, *available at* http://www.ustr.gov/sites/default/files/uploads/agreements/cafta/asset_upload_file747_3918.pdf. The objectives of CAFTA include: "(a) encourage expansion and diversification of trade between the Parties; (b) eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the Parties; (c) promote conditions of fair competition in the free trade area; (d) substantially increase investment opportunities in the territories of the Parties; (e) provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory; (f) create effective procedures for the implementation and application of this Agreement, for its joint administration, and for the resolution of disputes; and (g) establish a framework for further bilateral, regional, and multilateral cooperation to expand and enhance the benefits of this Agreement." *Id.*

[144] Trade and Development Conference, *supra* note 78, at 14.

[145] *Id.*

[146] *Id.* at 13.

[147] World Intellectual Property Organization, Agreement between the Government of the United States of America and the Government of the Republic of Nicaragua concerning Protection of Intellectual Property Rights, *available at*

The 1998 Agreement came into force on July 1, 1999.[148] The objective was to provide certain measures "in order to promote close and productive economic and other relations [with a desire] to facilitate the expansion of trade on a nondiscriminatory basis."[149] Negotiations surrounding the treaty between the two countries were kept under wraps, and the final text compels Nicaragua to provide a higher level of IPR protection than what is required under the TRIPS agreement.[150]

For instance, Article 10(2) of the Berne Convention remains flexible regarding the allowance of each nation's legislation to determine reproduction in certain special cases, such as utilization for teaching.[151] However, Article 3(2)(a)–(e) of the 1998 Agreement lists a number of additional authorizations granted to the authors and their successors in interest, more or less restricting the "Free Uses of Works" of Berne 10(2).[152] Specifically, Article 3(2)(a)—(e) of the 1998 Agreement grants authors the right to import copies of their works; the first public distribution of originals and copies thereafter by sale, rental, or otherwise; and distribution of the work by means of wire transference.[153] Since the U.S. hosts numerous academic publishing firms, distribution companies, and textbook authors within its borders, these "protections" restrict the less-developed Nicaragua much more than the U.S. in terms of controlling access to academic materials. The heightened authority given to authors of protected works in the 1998 Agreement restricts distribution and reproduction

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http://www.wipo.int/wipolex/en/other_treaties/text.jsp?file_id=241173 [hereinafter The 1998 Agreement].

[148] *Id*. (*available at* http://www.wipo.int/wipolex/en/other_treaties/details.jsp?group_id=23&treaty_id=491).

[149] The 1998 Agreement, *supra* note 147.

[150] Inti Linkletter Knapp, *The Software Piracy Battle in Latin America: Should the United States Pursue Its Aggressive Bilateral Trade Policy Despite the Multilateral Trips Enforcement Framework*, 21 J. INT'L L. 173, 178 (2000).

[151] Berne, *supra* note 39, at Art 10(2).

[152] *Id*. *See also* The 1998 Agreement, *supra* note 147, at Art. 3(2)(a)–(e).

[153] The 1998 Agreement, *supra* note 147, at Art. 3(2)(a)–(e).

rights, making it more difficult for texts to be circulated for purposes of education in Nicaragua. Additionally, under the 1998 Agreement, Nicaragua was required to implement the added protections within eighteen months.[154] This was about six months shorter than the TRIPS deadline.[155]

Moreover, Nicaragua is currently bound by the added pressure of the U.S. Special 301 Watch List ("Special 301").[156] Although the stated aim of Special 301 is to promote the "adequate and effective protection of [IPRs] in foreign countries,"[157] some argue that it was

> designed to use the credible threat of unilateral retaliation by the [U.S.] to 'persuade' trading partners to reform currently deficient intellectual property practices . . . . [And] to increase leverage for U.S. trade negotiators seeking to promote international trade liberalization.[158]

The objective of the 1998 Agreement between the U.S. and Nicaragua seems promising to both parties. However, it is important to keep in mind the intimidating effect Special 301 reports have, particularly on developing countries. Since multi-lateral trade

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[154] Knapp, *supra* note 150, at 178 (suggesting further protections to "copyrights, patents, trademarks, trade secrets, semiconductor layout designs, encrypted satellite signals, and geographical indications").

[155] *Id*.

[156] Section 182 of the Trade Act of 1974 (Trade Act) (19 U.S.C. 2242) [hereinafter, "Special 301"]. *See* Trade Representative, Office of the United States, *2014 Special 301 Review: Identification of Countries Under Section 182 of the Trade Act of 1974: Request for Public Comment and Announcement of Public Hearing*, U.S. FEDERAL REGISTER, *available at* https://www.federalregister.gov/articles/2014/01/03/2013-31487/2014-special-301-review-identification-of-countries-under-section-182-of-the-trade-act-of-1974 (noting that provisions of Section 182 are "commonly referred to as the "Special 301"). *See also* Judith H. Bello & Alan F. Holmer, *Special 301: Its Requirements, Implementation, and Significance*, 13 FORDHAM INT'L L.J. 259 (1989). *See generally* Theodore H. Davis, Jr., *Combatting Piracy of Intellectual Property in International Markets: A Proposed Modification of the Special 301 Action*, 24 VAND. J. TRANSNAT'L L. 505, 520–21 (1991).

[157] Davis, Jr., *supra* note 156, at 21.

[158] Bello & Holmer, *supra* note 156, at 263.

agreements and bilateral treaties fall short of providing a balanced means for developing countries to economically flourish, there remains the need for broader alterations in the legal landscape. Part V explores a path to provide the broader alterations needed by proposing a method of interpretation and an amendment to the TRIPS Agreement with a Copyright Declaration that loosens the restrictions on reproduction and distribution rights.

V. Changing the Legal Landscape: Providing Access to Educational Textbooks as a Manner of Promoting Sustainable Economies

As discussed in Part I, evidence suggests that populations with higher education enjoy greater economic growth.[159] Therefore, efforts to improve social and economic welfare should aim to broaden access to education. A pro-development interpretation of TRIPS and Berne, and adding a Copyright Declaration amendment similar to that of the Doha Declaration,[160] will provide the international community with the enforcement power needed to overcome barriers to improve education. Through developed education, countries, like Nicaragua, are likely to see increased economic stabilization.

a. Proposal: Interpreting and Amending TRIPS: A Pro-Development Interpretation of TRIPS and Berne

Interpreting TRIPS through a pro-development lens is imperative for the objectives and principles of the Agreement to come to fruition. Articles 7 and 8, labeled "Objectives" and "Principles," establish how the rest of the Agreement is to be interpreted.[161] Article 7 describes the Objectives: "the protection and enforcement of [IPRs] *should contribute to the promotion of technological innovation*."[162] Currently, however, TRIPS is not interpreted with the objective of

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[159] *See supra* note 4.

[160] Doha Declaration, *supra* note 6.

[161] TRIPS, *supra* note 5, at Arts. 7–8.

[162] *Id*. at Art. 7 (emphasis added).

promoting technological innovation to all of its other provisions.[163] The Principles in Article 8 of TRIPS emphasize the public interest and technological promotion:

> Members may . . . adopt measures necessary *to promote the public interest in sectors of vital importance to their socio-economic and technological development*.[164]

If all Members interpret the plainly stated Objectives and Principles as applying to the Agreement in its entirety, then its underlying objectives will have a much greater likelihood of being achieved. TRIPS is a binding, international agreement with the objective of developing "sectors of vital importance."[165] Education should, undoubtedly, be such a sector.

As will be detailed below, TRIPS Article 13 seeks to protect the interests of the right holder by limiting "exceptions to exclusive rights to certain special cases."[166] A pro-development interpretation of TRIPS does not run afoul of Article 13, but would rather require members to promote education accessibility by loosening restrictions on distribution and reproduction of textbooks and other academic materials.

b. Limitations and Exceptions of Article 13 and Berne

Because TRIPS adheres to Articles 1–21 of Berne,[167] the copyright provisions of Berne must be surveyed in order to recognize the limitations and exceptions of IPRs in both treaties. Articles 9 and 10 of Berne summarize the copyright reproduction provisions and fair use doctrine.[168] TRIPS Article 13 typically coincides with Berne 9(2),

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163 *Id*.

164 *Id*. at Art. 8 (emphasis added).

165 *Id*.

166 *Id*. at Art. 13.

167 TRIPS, *supra* note 5, at Art. 9 (providing that Members must comply with Articles 1–21 of the Berne Convention).

168 Berne, *supra* note 39, at Arts. 9-10.

but a slight difference exists as Berne allows exceptions regarding the right of reproduction while TRIPS applies to all rights; not just those of reproduction.[169] Berne 9(2) lists what many scholars have labeled "The Three-Step Test":[170]

> It shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.[171]

Thus, both Berne Article 9(2) and TRIPS Article 13 permit copyright reproduction only (1) in certain special cases, which (2) do not conflict with a normal exploitation of the work, and (3) do not unreasonably prejudice the legitimate interests of the author.[172]

In interpreting the first step under Berne 9(2), a WTO panel defined "certain special cases" in a June 2000 decision[173] that ultimately found the U.S. in breach of its international obligations under TRIPS.[174] The U.S. argued that the word "special" provided flexibility in interpreting whether a case could provide a basis for an exception.[175] The panel rejected this argument, however, and found that an exception falling under these cases should be "well-defined . . .

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[169] Julia Brungs, *Limitations and Exceptions to Copyright and Neighboring Rights in the Digital Environment: An International Library Perspective*, THE INTERNATIONAL FEDERATION OF LIBRARY ASSOCIATIONS AND INSTITUTIONS 6 (2004), *available at* http://www.ifla.org/files/assets/clm/position_papers/ilp.pdf.

[170] *See, e.g.*, Wiliam F. Patry, *Fair Use, the Three-Step Test, and the Counter-Reformation*, THE PATRY COPYRIGHT BLOG (April 02, 2008), http://williampatry.blogspot.com/2008/04/fair-use-three-step-test-and-european.html.

[171] Berne, *supra* note 39, at Art. 9.

[172] *Id.* at Art. 9(2); TRIPS, *supra* note 5, at Art. 13. *See also* Patry, *supra* note 170, ¶ 12.

[173] Jo Oliver, *Copyright in the WTO: The Panel Decision on the Three-Step Test*, 25 COLUM. J. L. & ARTS 119, 122 (2002).

[174] *Id.*

[175] *Id.* at 149.

and limited in [scope]”.[176] The panel explicated that an exception is well-defined and limited in scope when all potential users falling under the exception are considered, not just any users simply taking advantage of the exception.[177]

This article can serve as an example to demonstrate the application of this rule. The particular purpose of this article is to propose a legal framework for reproducing academic texts for the benefit of underdeveloped nations. The purpose is narrow in scope since it calls for a particularized type of copyrighted work (academic texts) and would be reproduced for limited and specified geographic populations (developing nations). Because the reproduction of educational texts is well-defined and limited in scope, the copyright activity falls within the “certain special cases” exception as identified in Berne and TRIPS.[178] According to the final steps of the “Three-Step Test” of Berne 9(2), Member states must determine if the identified “special case” conflicts with a normal exploitation of the work, or if it unreasonably prejudices the legitimate interests of the author.[179] Again, interpreting Article 9(2) and the Objectives and Principles of TRIPS in a pro-development manner—along with compliance and anti-circumvention laws of Member states[180]—reproduction of textbooks for educational purposes would not conflict with the normal exploitation of the works, nor unreasonably prejudice the legitimate interests of authors.

Furthermore, Berne 10(2)—characterized as the “so-called illustrations for teaching provision[s]”—states:

> It shall be a matter for legislation in the countries of the Union, and for special agreements existing or to be concluded between them, to permit the utilization, to the extent justified by the purpose, of literary or artistic works by way of illustration in publications . . . for

[176] *Id*. at 149, 154.

[177] *Id*. at 154.

[178] Berne, *supra* note 39, at Art. 9(2); TRIPS, *supra* note 5, at Art. 13.

[179] Berne, *supra* note 39, at Art. 9(2).

[180] Yu, *supra* note 31, at 46.

> teaching, provided such utilization is compatible with fair practice.[181]

Thus, Berne 10(2) allows Members to permit utilization of literary works for teaching.[182] Allowing reproduction of academic texts satisfies the "Three-Step Test." A pro-development reading of TRIPS and Berne calls upon the international community to utilize the inherent flexibility of Berne and TRIPS to promote access to works for educational purposes, particularly in developing countries like Nicaragua. Using this framework, Members could achieve worldwide access to education and promote an equal and competitive global market.

c. Amending TRIPS

A Copyright Declaration would ensure the use of the preceding framework. Article 71 of TRIPS provides the option to form an amendment (defined as a formal addition or adjustment) to the Agreement.[183] The procedure required for an amendment to become permanent is set out in Article 10 of the Marrakesh Agreement Establishing the WTO,[184] which requires a vote by the Ministerial Conference (or the WTO Members if a consensus is not reached) for the amendment to be entered into force.[185] These provisions indicate that TRIPS is neither unalterable nor absolute; any WTO Member may bring an amendment proposal to require broader reproduction and distribution copyright provisions via TRIPS.[186] The Agreement is open

[181] Berne, *supra* note 39, at Art. 10(2) (characterizing the use of copyrighted materials for educational purposes).

[182] *Id*.

[183] TRIPS, *supra* note 5, at Art. 71 (providing that "[t]he Council may also undertake reviews in the light of any relevant new developments which might warrant modification or amendment of this Agreement").

[184] Marrakesh Agreement Establishing the World Trade Organization, Art. 10, Apr. 15, 1994, 1867 U.N.T.S. 154, 33 I.L.M. 1144 (1994) [hereinafter WTO Agreement], The Legal Texts: The Results of the Uruguay Round of Multilateral Trade Negotiations.

[185] *Id*. at Art. 10.

[186] Trade and Development Conference, *supra* note 78, at 69.

to evolve, and *should* evolve in order to become more development-oriented for the benefit of underdeveloped countries like Nicaragua.[187] However, as discussed in the United Nations Conference on Trade and Development in 2008, suggestions about amending TRIPS "will have to be placed in the context of WTO's political reality."[188] In other words, the amendment process is not a simple task. On the contrary, it is "burdensome and time-consuming," and often "stops short of meeting fully developing countries' original aspirations and expectations."[189]

Another argument surrounding the difficulty of amending TRIPS is that broadening the Agreement through an amendment will open the floodgates in other areas that may compromise opportunities for development.[190] These barriers suggest a need for a less onerous process for amending TRIPS. However, even with these obstacles, an amendment would be worth the time and struggle. Amending TRIPS with a Copyright Declaration similar to that of the Doha Declaration[191] will extend the enforceability and authority of TRIPS to the objective of granting compulsory licenses for reproducing and distributing textbooks.

As stated earlier, the Doha Declaration relates to patent rights specifically, and it addresses public health issues in the context of TRIPS.[192] During the WTO Fourth Ministerial Conference in 2001, many developing countries were concerned about a critical lack of access to medicines.[193] In light of their concerns, the Conference negotiated the Doha Declaration, which was then adopted by the WTO.[194] The Declaration emphasizes the need to utilize the

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[187] *Id.*

[188] *Id.*

[189] *Id.*

[190] *Id.* at 69–70.

[191] Doha Declaration, *supra* note 6.

[192] CHOW & LEE, *supra* note 39, at 427–28.

[193] *Id.* at 428.

[194] *Id.*

flexibilities granted in TRIPS to bypass patent rights in order to provide greater access to essential medicines.[195] The relevant paragraphs of the Doha Declaration provide the following:

> (4) TRIPS does not prevent Members from taking measures to protect public health, and it [(TRIPS)] should be interpreted and implemented in such a way that supports WTO Members' rights to protect public health and promote access to medicines *for all*. TRIPS flexibilities should be used to promote these purposes;
>
> (5) This paragraph sets out flexibilities provided for in TRIPS, which include the following:
>
> (a) Through application of public international customary rules of interpretation, each TRIPS provision shall be read in light of the Objectives and Principles of the Agreement;
> (b) Each Member has the right to compulsory licenses;
> (c) Each Member determines what constitutes a national emergency or other circumstance of extreme urgency;
> (d) Each Member establishes its own rules for exhaustion of IPRs subject to the most favored nation and national treatment provisions provided for in Articles 3 and 4;
>
> (6) Members realize that some WTO Members do not have the capabilities to provide pharmaceuticals within their own borders due to insufficient manufacturing making it difficult for them to utilize compulsory licensing. Because of this, the Council for TRIPS agrees to an implementation of this paragraph in the TRIPS Agreement.[196]

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[195] Doha Declaration, *supra* note 6; CHOW & LEE, *supra* note 39, at 428.

[196] Doha Declaration, *supra* note 6, ¶¶ 4–6; CHOW & LEE, *supra* note 39, at 428–29 (paraphrasing the language of the agreement) (emphasis added).

The implementation provision of paragraph 6 allows "exporting Members" (or any Member using Doha to produce medicines for eligible importing Members) to waive the obligations under TRIPS Article 31(f)[197]

> to the extent necessary for the purposes of production of pharmaceutical product(s) and export to eligible importing Members in accordance with [the following terms]."[198]

The implementation provision imposes certain requirements on importing and exporting Members while defining the scope of the compulsory license issued.[199] Eligible importing Members are asked to notify the TRIPS Council of the name and quantity of the pharmaceutical product needed, and to demonstrate that the importing Member country is not able to manufacture the product itself.[200] The provisions also state that:

> [w]here a pharmaceutical product is patented [within a certain] territory, [that territory] has granted or intends to grant a compulsory license . . .

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[197] TRIPS, *supra* note 5, at Art. 31, 31(f) (listing provisions where the public may use a protected work without the authorization of the IPR owner: "Where the law of a Member allows for other use of the subject matter of a patent without the authorization of the right holder, including use by the government or third parties authorized by the government, the following provisions shall be respected." A list of conditions follows, including subparagraph (f), which states that "any such use shall be authorized predominately for the supply of the domestic market of the Member authorizing such use").

[198] *See* CHOW & LEE, *supra* note 39, at 430.

[199] Carlos M. Correa, Abstract, *Essential Drugs and Medicines Policy*, WORLD HEALTH ORGANIZATION (Apr. 2004), *available at* http://apps.who.int/medicinedocs/en/d/Js6159e/2.html.

[200] Decision of the WTO General Council of Aug. 30, 2003 (WT/L/520), § 2(a)(i)-(iii). *See also* CHOW & LEE, *supra* note 39, at 431 (noting that this WTO Decision deals specifically with the implementation of the Doha Declaration and paragraph 6 in TRIPS).

in accordance with TRIPS Article 31.[201] The exporting Member, on the other hand, must notify the Council for TRIPS of the terms of the license it is granting.[202] The mandatory conditions of the compulsory license include: 1) identifying the product as being produced under the system of Doha; and 2) limiting the amount of the product to only what is necessary to meet the needs of the importing Member(s).[203] The licensor must also post information about the product online before shipment.[204]

Just as the Doha Declaration allows for distribution of pharmaceutical products to promote public health and access to medicine, a new Copyright Declaration amendment to TRIPS could allow for distribution of academic materials to promote literacy and access to education.

VI. Conclusion

Paragraph 5(c) of the Doha Declaration allows each WTO member to "determine what constitutes a national emergency or other circumstance of extreme urgency."[205] Politicians, economists, legal observers, law professors, and political scientists have agreed that a lack of education in a country constitutes a circumstance of extreme urgency.[206] Because Nicaragua and other countries in the developing world critically lack access to education, the international community should amend TRIPS with a Copyright Declaration for academic materials that parallels the language negotiated in the Doha Declaration for patents. By issuing compulsory licenses for the distribution and reproduction of educational textbooks to the developing world, such an amendment would make education accessible to everyone around the globe and provide an economic

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[201] *Id.*

[202] *Id.* at 2(c).

[203] *Id.* at 2(b)(i)–(ii).

[204] *Id.* at 2(b)(iii).

[205] Doha Declaration, *supra* note 6, ¶ 5(c).

[206] *See* Chon, *supra* note 23; Darkey & Akussah, *supra* note 24; Tomasevski, *supra* note 29; Pederson, *supra* note 33.

balance for all countries to participate and thrive in the international marketplace.

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