FLEXIBLE REMEDIES AS A MEANS TO COUNTERACT FAILURES IN COPYRIGHT LAW♦

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INTRODUCTION

This article explores the potential role of a flexible approach to remedies in the field of copyright law. Copyright law has been in crisis over the past decades, especially since the emergence of digital technology and the Internet.[1] The result has been outspoken criticism, from both the academia and the public, asking to reshape the contours of copyright law to adapt it to current societal needs.[2] Yet, such changes could be achieved, at least in part, through the careful use of remedies granted in copyright infringement cases.

Copyright law is known for its uncertainties. Copyright lawyers are quite familiar with the notion that there is no definitive answer as to whether a certain use is permitted under governing law or not. The legal analysis is usually complex, resulting in a conclusion that is almost invariably hedged, and it is accompanied by descriptions of vague copyright doctrines, such as "originality"[3] and "fair use."[4] Copyright law is indeed complex and not intuitive, making court outcomes hard to predict. Therefore, one strategic and rational choice has been to simply avoid the questionable use of the work or, alternatively, to acquire a license as a purely precautionary measure. Such risk-averse behavior reflects the chilling effect of copyright law in its current state, a recognized and extensively discussed phenomenon.[5] This common behavior has been dubbed a "licensing culture."[6] The uncertainties of copyright law feed the chilling effect in other ways as well, though these are less

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1 *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 (1999); James Boyle, *A Politics of Intellectual Property: Environmentalism for the Net?*, 47 DUKE L.J. 87 (1997); Jessica Litman, *Revising Copyright Law for the Information Age*, 75 OR. L. REV. 19 (1996) [hereinafter Litman, *Revising Copyright*]; Pamela Samuelson, Symposium, *Intellectual Property and Contract Law for the Information Age: Foreword to a Symposium*, 87 CALIF. L. REV. 1 (1999) [hereinafter Samuelson, *Intellectual Property and Contract Law*].

2 *See* Benkler, *supra* note 1, at 400-412; Boyle, *supra* note 1, at 112-16; Litman, *Revising Copyright*, *supra* note 1; Samuelson, *Intellectual Property and Contract Law*, *supra* note 1; s*ee also* LAWRENCE LESSIG, CODE AND OTHER LAWS OF CYBERSPACE 124, 127, 133 (1999); Julie E. Cohen, *Some Reflections on Copyright Management Systems and Laws Designed to Protect Them*, 12 BERKELEY TECH. L. J. 161 (1998); Niva Elkin-Koren, *Cyberlaw and Social Change: A Democratic Approach to Copyright Law in Cyberspace*, 14 CARDOZO ARTS & ENT. L.J. 215 (1996).

3 *See* 17 U.S.C. § 102 (1976).

4 *See* 17 U.S.C. § 107 (1976).

5 *See, e.g.*, William W. Fisher III, *Reconstructing The Fair Use Doctrine*, 101 HARV. L. REV. 1661, 1668 (1988); 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, 1627 (1982); Alfred C. Yen, *A First Amendment Perspective on the Idea/Expression Dichotomy and Copyright In a Work's "Total Concept and Feel,"* 38 EMORY L.J. 393 (1989); Emily Meyers, Note, *Art on Ice: The Chilling Effect of Copyright on Artistic Expression*, 30 COLUM. J.L. & ARTS 219 (2007).

6 *See* James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 899-900 (2007).

frequently discussed. One of these ways concerns a situation in which an unlicensed use of a copyrighted work has been made and is challenged by its owner. If such case involves legal uncertainties, the parties typically prefer to settle the matter privately without going to court, because both sides have potentially much to lose. If the defendant loses, the court will usually grant *all available* remedies, assuming the plaintiff is entitled to all of them; and if the plaintiff loses he earns nothing, and has to pay extensive litigation costs. In this way, under a situation of legal uncertainty, the all-or-nothing approach in copyright law encourages both parties to reach a compromise settlement without challenging the case in court. Thus, the status quo promotes a "settling culture," amplifying the chilling effect in copyright law in several ways. In the reality of under-litigation the legal standards are not elucidated. The uncertainty persists as the vicious cycle perpetuates itself: parties have a lot to lose, they are unsure of the law, so rather than test and clarify the law, the parties settle and the law does not get clarified through court decisions; and the next set of parties find themselves in the same boat. The strategic choice not to litigate uncertain copyright cases prevents the common law mechanism from clarifying legal uncertainties, and the chilling effect is maintained. The cycle could be broken if litigation was encouraged.

The argument presented in this article is that litigation could be encouraged by making the range of remedies available to the courts more flexible, by changing the all-or-nothing approach of court decisions. If courts were able to grant remedies that reflect a compromise position, then parties may prefer to litigate and shift the final decision to the courts. This could potentially result in a common law of copyright being created, which could clarify some of the uncertainties of the law. Furthermore, the "settling culture," as well as the "licensing culture," at times induces some payments that could have been saved if the cases were determined by courts as non-infringing, and therefore reflect a core loss to society. If courts were willing to create a more flexible range of remedies in copyright cases, then it would also affect the settlement amount by reducing it, thereby assisting in easing the chilling effect. Finally, if courts were willing to create a more flexible range of remedies in copyright cases, then the chilling effect would be reduced yet in another way: there would be a greater use of copyrighted works since users would feel less of an overall initial risk of using copyrighted works in uncertain cases.

Remedies, in other words, need to be taken seriously.[7] They

7 *See* RONALD DWORKIN, TAKING RIGHTS SERIOUSLY, 15-16, 269 (1977). In *Taking Rights*

should not be viewed simply as a legal by-product of the legal system's determination that an infringement has taken place, but rather as a complimentary means for implementing policy. The most fundamental questions in copyright law concerning the need to balance major competing interests - the free flow of ideas, free speech and open democratic discourse on the one hand, and the need to encourage creation of works on the other - should be addressed by the courts when they grant the remedies. It may be that the most effective and pragmatic way for balancing those interests is through the grant of appropriate remedies on a case-by-case basis. The availability of a broad range of remedies would mean no dogmatic assumption as to which remedies the plaintiff is entitled to. Remedies are subject to the full discretion of the courts as an instrument of applying policies such as just compensation, unjust enrichment, inter-parties fairness as well as the public interest. Understanding remedies as a major means for introducing policy would enable courts to elaborate compromise solutions that better reflect the complexity of the interests involved.

Adoption of a flexible approach to remedies would not require any codification or legal reform, since courts are already vested with the discretion they need to provide such remedies. The potential role of flexible remedies for easing some of the failures of copyright law is also especially significant in light of the current environment of international law, in which strengthening copyright protection is currently a dominant concern.[8] International law does not prevent the development of national laws regarding remedies, and courts could easily develop such remedies as a means for reducing the chilling effect, with no need for any special legislation in that regard, either.[9]

Part I describes some of the failures of copyright law that are causing, directly and indirectly, this chilling effect, most significantly copyright law's all-or-nothing approach. Part II presents an analysis of the potential role of a flexible conception of remedies for curing some of these failures, including theoretical inquiries

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Seriously, Dworkin criticized the nominalist conception of law as a framework of rules applied mechanically by judges. Rights, according to Dworkin, should not be treated as trumping considerations of utility or the general welfare. *Id.* Dworkin's influential writing launched an era of discourse on the role and function of rights; see, for example, Robin West, *Taking Moral Arguments Seriously*, 74 CHI.-KENT L. REV. 499 (1999). However, the remedies that derive from rights have not earned the same scholarly attention, though they are equally important for advancing policy considerations. It has been noted that remedies are perceived as a matter of practice and not theory, thus deserving less academic attention. *See* Daryl J. Levinson, *Rights Essentialism and Remedial Equilibration*, 99 COLUM. L. REV. 857, 857-858 (1999).

8 See, for example, the Anti-Counterfeiting Trade Agreement (ACTA) initiative, intended to foster enforcement of intellectual property rights, *available at* http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_140836.11.08.pdf.

9 *See infra* Part II.C.

concerning remedies, and how such a remedies system might work from the perspective of international law. Part III describes some central examples for creating a flexible range of remedies in copyright infringement cases, with respect to both injunctive and monetary relief. This section is intended to illustrate the potential of flexible remedies, although there is undoubtedly room for future development of thorough remedy provisions within the framework of copyright law. Part IV concludes this article with a call to the courts to adopt a flexible approach to remedies in order to promote goals underlying copyright law.

I. INFLEXIBLE APPROACH TO REMEDIES AMPLIFIES THE CHILLING EFFECT IN COPYRIGHT LAW

A. *Inflexible Remedies and the All-or-Nothing Approach*

One of the key outstanding problems of the current copyright regime is that it creates a chilling effect in which potential uses of copyrighted works are avoided because of the lack of clarity regarding the legal status of the uses in question.[10] As a result, the flow of ideas, information and content is reduced more than it need be. In the last decade, extensive scholarly writing has explored this effect, identifying its various economic and behavioral causes.[11]

Copyright law contains open standards, whose purpose is to permit the development, on a case-by-case basis, of finely-tuned

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10 The non-use of works may occur due to the absence of permission to use the work. In that sense, copyright in itself chills the free flow of ideas. *See, e.g.*, Jack M. Balkin, Commentary, *Digital Speech and Democratic Culture: A Theory of Freedom of Expression for the Information Society*, 79 N.Y.U. L. REV. 1 (2004). This result is justified by the basic underpinnings of copyright law, aimed to create a balance between the need to provide incentives to creation and access to such creations. *See* Glynn S. Lunney, Jr., *Reexamining Copyright's Incentives-Access Paradigm*, 49 VAND. L. REV. 483 (1996). This effect of copyright law stands at the basis of the current legal-social call for halting the expansion of the scope of copyright, and for limiting it to achieve a more appropriate balance of the competing interests and to provide access to created works. *See* sources cited *supra* note 2. However, the chilling effect usually referred to is one which stems from economic and behavioral causes beyond the mere acknowledgement of the copyright itself.

11 For the impact of uncertainty in copyright law see Ben Depoorter, *Technology and Uncertainty: The Shaping Effect on Copyright Law*, 157 U. PA. L. REV. 1831, 1834 (2009) (arguing that legal uncertainty results because the general social and economic ramifications are typically unknown when a new technology is introduced. Due to copyright law's inability to keep pace with the new technological developments, uncertainty is constantly accompanying copyright law.). *See also* John E. Calfee & Richard Craswell, *Some Effects of Uncertainty on Compliance with Legal Standards*, 70 VA. L. REV. 965, 965 (1984) (analyzing "ways in which uncertainty about the application of legal standards can give parties economic incentives to 'overcomply' or to 'undercomply' that is, to modify their behavior to a greater or lesser extent than a legal rule requires"). For the failures created by the fair use doctrine, see Michael W. Carroll, *Fixing Fair Use*, 85 N.C. L. REV. 1087, 1092 (2007); Fisher, *supra* note 5; Gordon, *supra* note 5; Marshall Leaffer, *The Uncertain Future of Fair Use in a Global Information Marketplace*, 62 OHIO ST. L.J. 849, 852 (2001); Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1106-07 (1990); Gideon Parchomovsky & Kevin A. Goldman, *Fair Use Harbors*, 93 VA. L. REV. 1483 (2007).

norms. The most familiar example of such a mechanism is the "fair use" doctrine, which permits uncompensated use of copyrighted works without permission from the copyright holder when such use is regarded as "fair."[12] Many of the most basic terms and doctrines in current copyright law, in addition to fair use, are governed by open standards, such as originality,[13] idea-expression dichotomy,[14] and substantial similarity.[15] These open standards dictate the most fundamental concepts of the copyright legal system: from the definition of the subject matter, through the scope of protection, and the definition of exceptions. As a result, much uncertainty accompanies any legal analysis of copyright law questions. These open-standard norms, when not clarified through the mechanism of common law, create a chilling effect, since potential uses which may be permissible are avoided due to the inherent uncertainty regarding the law.[16] Users may also acquire licenses for the works in question merely as a precaution in cases where such licenses might be unnecessary.[17] The consequence of this behavior is that it either provides an over-incentive for creation or reflects an inefficient use of existing works, which represents a loss to society.[18]

The chilling effect caused by copyright uncertainties is stimulated by another legal failure, largely neglected in scholarly writing: the inflexible remedies that may be granted by the court if the use of a copyrighted work were to be challenged in court. Copyright law employs an all-or-nothing approach, in which the outcome of a copyright infringement case is either that the plaintiff succeeds and is entitled to all available remedies, or he or she fails and is not entitled to any remedies at all. This all-or-nothing approach is problematic because in many copyright cases the appropriate balance between the conflicting interests lies somewhere between the two extremes. Since copyright law does not allow for compromise verdicts, judges are forced to evaluate the core overriding interest: is the use, on the whole, more of an infringement or more of a legitimate use? Clearly, this binary form of decision-

12 *See* 17 U.S.C. § 107 (1976).
13 *See* 17 U.S.C. § 101 (1976).
14 *See id.*
15 *See* 17 U.S.C. § 106 (1976).
16 *See supra* note 6 and accompanying text.
17 *See* Gibson, *supra* note 6 (arguing that fair users frequently request licenses simply to avoid litigation, which in turn enlarges the scope of the right expected by copyright holders); Mark A. Lemley, *Should a Licensing Market Require Licensing?*, 70 LAW & CONTEMP. PROBS. 185, 185-86 (2007) [hereinafter Lemley, *Licensing Market*] ("Because fair use relies upon a vague, multi-factor test, it is impossible to know ex ante whether any particular use will qualify as fair.").
18 *See, e.g.*, Fisher, *supra* note 5, at 1693-694; Gibson, *supra* note 6, at 888-89; Gordon, *supra* note 5, at 1629-635; Lemley, *Licensing Market*, *supra* note 17, at 186-87; Parchomovsky & Goldman, *supra* note 11, at 1491-95.

making cannot take into account the spectrum of interests and considerations that are at play (or that should be).

There are many examples to demonstrate the problematic binary decision-making approach in copyright law. Perhaps the best example is fair use cases. Judge Alex Kozinski has admitted that copyright cases dealing with the fair use doctrine suffer from this problem of harsh results in which either the plaintiff succeeds and is entitled to all available remedies, or else he or she fails and is not entitled to any remedies at all. In many fair use cases there is no clear right or wrong, but the court must nonetheless decide on a winner and a loser.[19] Referring to the case of *Dr. Seuss Enterprises v. Penguin Books*,[20] in which a satire on the O. J. Simpson trial was written and illustrated in the style of Dr. Seuss, Judge Kozinski discussed in a symposium the basic judicial dilemma:

> In fair use, as with pregnancy tests, "a little bit" isn't considered an acceptable response. Fair use is conceptually a hard-edged box: either you're in it or you're out of it. If you're out, you can be enjoined out of existence like Dr. Juice. If you're in, you can keep doing what you're doing and thumb your nose at the copyright holder while you rake in the bucks. Personally, I find both of these alternatives troubling in different ways.[21]

In addition to fair use cases, cases addressing derivative works are a good example of the binary decision-making approach. Such cases occasionally raise some of copyright law's most basic dilemmas: how much can a work borrow from a copyrighted work without infringing its copyright? Must the use of the underlying copyrighted work be accomplished through reproduction in order to infringe? Are there other ways of reliance on copyrighted works, in addition to reproduction, which are prohibited too? How should a court treat a derivative work, which adds a significant contribution, but is based on a minimal taking from the underlying copyrighted work? Do such cases support a fair use finding?[22] Since courts can only find that there either was or was not an infringement of copyright, legal distortions may occur. For example, in *Lewis Gallob Toys v. Nintendo of America*,[23] the court was faced with the complex question of how to treat the defendant's soft-

19 *See* Alex Kozinski & Christopher Newman, Daniel C. Brace Memorial Lecture, What's So Fair About Fair Use?, *in* 46 J. COPYRIGHT SOC'Y U.S.A. 513, 514 (1999) ("[W]hen you're applying a multi-factor test in which the factors are not clearly defined or weighted, it's very difficult to *be* clearly wrong.").
20 Dr. Seuss Enter. v. Penguin Books U.S.A., 109 F.3d 1394 (9th Cir. 1997).
21 Kozinski & Newman, *supra* note 19, at 515.
22 *See* Paul Edward Geller, *Hiroshige vs. Van Gogh: Resolving the Dilemma of Copyright Scope in Remedying Infringement*, 46 J. COPYRIGHT SOC'Y U.S.A. 39 (1998); Paul Goldstein, *Derivative Rights and Derivative Works in Copyright*, 30 J. COPYRIGHT SOC'Y U.S.A. 209 (1983); Naomi Abe Vogtli, *Rethinking Derivative Rights*, 63 BROOK. L. REV. 1213 (1997).
23 Lewis Galloob Toys, Inc. v. Nintendo of Am., Inc., 964 F.2d 965 (9th Cir. 1992).

ware, designed to work with the plaintiff's copyrighted software to accelerate its operation. The accelerating software was based on the underlying software, but did not copy any part of it. Thus, although there was no actual copying, it was clear that the "derivative" depended on the underlying work and relied on its commercial success. In addition, the "derivative" work might be in competition with the financial interests and future plans of the copyright owner. However, at the same time, it provided the public with technological improvements, which the copyright owner, if held to control it, could withhold until it had reaped the full financial benefit from the first-generation software.[24] Striking the balance between the competing interests in such a case leads to the understanding that a solution that is *not* all-or-nothing should be adopted; rather when there is some free riding the copyright owner should be entitled to some financial compensation, but at the same time the public interest supports encouraging other developers to improve upon the original product, therefore remedies should not be too deterring. This second consideration prevailed in this case, where the copyright owner gained nothing because the court held that there had been no infringement.[25] Ten years earlier, however, in a very similar case a court reached the opposite conclusion, preferring the interest of the copyright owner in controlling future revenues based on his work, and held that an infringement had occurred; thus, the copyright owner received both injunctive and full monetary relief.[26]

This phenomenon of an inflexible remedies' limited menu, with its all-or-nothing approach, fosters the chilling effect in several ways motivated by risk-averse behavior that shall be discussed below. This inflexible method is probably one of the characteristics of a property rule model, which was identified by Guido Calabresi and A. Douglas Melamed in their influential article.[27] As Lawrence Lessig claims, once classified as property, copyright is burdened by the ordinary view of property, which is binary at its core.[28] Without going into the debate on whether copyright should be perceived as a property right or not,[29] it should be ac-

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24 *See* Carol S. Curme, *Derivative Works of Video Game Displays:* Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc., 61 U. CIN. L. REV. 999, 1034 (1993); Lydia Pallas Loren, *The Changing Nature of Derivative Works in the Face of New Technologies*, 4 J. SMALL & EMERGING BUS. L. 57, 66-73 (2000).

25 *See Gallob Toys*, 964 F.2d at 971-72. For support for this decision see MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 8.01[F] (2010).

26 *See* Midway Mfg. Co. v. Artic Int'l Inc., 704 F.2d 1009 (7th Cir. 1983).

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

28 *See* Lawrence Lessig, *Re-crafting a Public Domain*, 17 YALE J.L. & HUMAN. 56, 81 (2006).

29 For the view that copyright should be shaped as an independent category, free from principles and terminology of property rights, see Christina Bohannan, *Copyright Harm, Foreseeability, and Fair Use*, 85 WASH. U. L. REV. 969, 974-76, 983-85 (2007); Dane S. Ciolino

knowledged on a more pragmatic basis that the inflexible binary approach creates a failure from the perspective of promoting copyright goals. Copyright law is aimed at both encouraging creative activity and controlling the product of such creative activity. The effect of decisions which either over-control the use of works or fail to encourage their production has a tremendous impact on these two key goals.[30] Over-enforcement creates a chilling effect on potential use, and under-enforcement reduces the incentive that ought to be given to the copyright owner. Moreover, as copyright law often controls the dissemination of information, the all-or-nothing approach may be said to affect the conduct of the whole information market. Therefore, it is urgent to develop a more nuanced approach to remedies that will enable courts to deliver fine-tuned decisions, sensible to its overall impact on the creators, users and relevant markets. The potential ways to challenge the chilling effect, therefore, should include means to ease the inflexible approach to remedies in copyright law, as proposed below, in Part II.

B. *Acceleration of the Chilling Effect: Disincentive to Litigate and Incentive to Settle Disputes Privately*

The inflexible approach to remedies, which entails harsh all-or-nothing results, amplifies the chilling effect caused by copyright uncertainties. As mentioned above, the uncertainties surrounding copyright law lead to risk-averse behavior, which is manifested either in complete avoidance of the use of otherwise desirable copyrighted works or in the acquisition of a license for such use, as a

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& Erin A. Donelon, *Questioning Strict Liability in Copyright*, 54 RUTGERS L. REV. 351, 364 (2002) ("Although 'intellectual property' has long been compared to 'property,' and 'infringement of copyright' compared to 'trespass to realty,' these analogies are problematic because they reflect a fundamental misunderstanding of both the practical and theoretical underpinnings of modern copyright law."); Mark A. Lemley, *Romantic Authorship and the Rhetoric of Property*, 75 TEX. L. REV. 873, 902 (1997); Jessica Litman, *The Public Domain*, 39 EMORY L.J. 965, 970–971 (1990); Peter S. Menell, *The Property Rights Movement's Embrace of Intellectual Property: True Love or Doomed Relationship?*, 34 ECOLOGY L.Q. 713, 743 (2007) ("There is little doubt that intellectual property rights can be exclusive. But they need not be and often are not, at least not to the extent associated with real property."); L. Ray Patterson, *Free Speech, Copyright, and Fair Use*, 40 VAND. L. REV. 1, 9 (1987).

For the more conservative view, classifying copyright as a property right, see Michael James Arrett, *Adverse Possession of Copyright: A Proposal to Complete Copyright's Unification with Property Law*, 31 J. CORP. L. 187 (2005); Richard A. Epstein, *Liberty Versus Property? Cracks in the Foundations of Copyright Law*, 42 SAN DIEGO L. REV. 1 (2005); Richard A. Epstein, *Intellectual Property: Old Boundaries and New Frontiers*, 76 IND. L.J. 803 (2001); F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697 (2001); Polk R. Wagner, *Information Wants to Be Free: Intellectual Property and the Mythologies of Contro*l, 103 COLUM. L. REV. 995 (2003).

30 This is the incentive/access equate copyright law must create. *See* Lunney, *supra* note 10.

precautionary measure when such a license might not be required by law.[31] Although this phenomenon is thoroughly discussed in scholarly writing, the risk–averse behavior should be analyzed in order to identify its underlying reasons. Since courts decide copyright cases based on an all-or-nothing approach to remedies, the risk to both sides of losing is very high. As a result, socially beneficial activities are unnecessarily curtailed.[32] Therefore, understanding the effect that the inflexible remedies approach has on risk-averse behavior in copyright law is important since it may lead to a method for changing such behavior.

The chilling effect also may be deepened as a result of a less-discussed behavior: the disincentive to litigate all but the most clear-cut copyright cases, and to prefer settlements if the unauthorized use was eventually challenged by the copyright owner. This Part discusses how the litigation-aversion and settlement-preference behavior accelerates the chilling effect in copyright law in various ways.

One of the consequences of the uncertainty that pervades copyright law is that it fosters a tendency to settle without going to trial, or settling soon after a claim is filed. Legal scholarship has treated uncertainty as a factor governing party decisions, for example within the rational choice theory framework, according to which human behavior is dictated by evaluation of the relevant probabilities and payoffs.[33] The basic idea underlying behavioral law and economics, and more specifically game theory, is that a rational person will act strategically in deciding how to act.[34] Thus, behavioral economics has potential applications to litigation and settlement,[35] in the decision whether to settle or go to trial.[36] A line of law and economics scholarly writing supports the view that

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31 *See supra* notes 16-18.

32 *See* A. Mitchell Polinsky & Steven Shavell, *Punitive Damages: An Economic Analysis*, 111 HARV. L. REV. 869, 873 (1998) ("[I]f injurers are made to pay more than for the harm they cause, wasteful precautions may be taken . . . and risky but socially beneficial activities may be undesirably curtailed.").

33 According to classical law and economics, under conditions of full information, rationality and zero transaction costs, any assignment of legal rights will be efficient. This is Ronald Coase's basic theory. *See* R. H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1, 15 (1960). Later research following Coase's theory developed the different components of the classical assumption, including that of "rationality." Rational choice theory, which combines economics and behavioral sciences, explores the way rational actors would act. *See, e.g.*, Jules L. Coleman, *The Rational Choice Approach to Legal Rules*, 65 CHI.-KENT L. REV. 177, 182 (1989).

34 *See* RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW 19-20 (7th ed. 2007).

35 *See id.* at 19-20, 597-98.

36 The common view is that the vast majority of legal disputes, in general, are settled without going to trial. *See* POSNER, *supra* note 34, at 597-98. The absence of data on pre-trial negotiations has handicapped development of this insight; however, in general civil law some research has shown such a tendency. *See, e.g.,* Robert D. Cooter & Daniel L. Rubinfeld, *Economic Analysis of Legal Disputes and Their Resolution*, 27 J. ECON. LITERATURE 1080-82 (1989); Samuel R. Gross & Kent D. Syverud, *Getting to No: A Study of Settlement Negotiations and the Selection of Cases for Trial*, 90 MICH. L. REV. 319, 319-21 (1991).

settlements, in general, are a more efficient choice than litigation.[37] One of the fundamental reasons for favoring settlements (apart from reducing transaction costs) is the certainty they provide, in contrast to the uncertainty as to the outcome of a trial verdict: since both parties are evaluating their legal chances under the veil of ignorance, they rationally prefer the lesser potential harm of compromise.[38] It should be noted that judges also serve as important catalysts for settlement, by adopting the view that settlements are preferable to conducting a trial.[39] The tendency to settle uncertain legal cases is further motivated in copyright law by the all-or-nothing approach, where the judge has no discretion to

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37 *See, e.g.*, Robert D. Cooter et al., *Bargaining in the Shadow of the Law: A Testable Model of Strategic Behavior*, 11 J. LEGAL STUD. 225, 225 (1982) (stating that trial "represents a bargaining breakdown"); Gross & Syverud, *supra* note 36, at 320 (opening their article with the statement that "[a] trial is a failure"); Russell Korobkin & Chris Guthrie, *Psychological Barriers to Litigation Settlement: An Experimental Approach*, 93 MICH. L. REV. 107, 108 (1994) (noting that most scholars believe "that trials represent mistakes breakdowns in the bargaining process that leave the litigants and society worse off than they would have been had settlement been reached").

38 *See* George L. Priest & Benjamin Klein, *The Selection of Disputes for Litigation,* 13 J. LEGAL STUD. 1 (1984). This early influential piece argues that trials are most likely to occur in "close" cases, namely cases dealing with clear rules to be executed, or, put differently, when the probability of a judgment is high. *See also* Gross & Syverud, *supra* note 36, at 320 ("The nature of our civil process drives parties to settle so as to avoid the costs, delays, and uncertainties of trial, and, in many cases, to agree upon terms that are beyond the power or competence of courts to dictate. These are powerful forces, and they produce settlement in a very high proportion of litigated disputes. Once in a while, however, the process fails and a case goes to trial."). Nevertheless, it is clear that this general assumption is difficult to confirm or refute, since it requires data on both settlements and trials, which is almost impossible to obtain.

Korobkin and Guthrie have tackled the question from a different angle - the psychological one. Their experiments are aimed at discovering the psychological principles that drive litigants towards settling disputes, and avoiding trials. *See* Korobkin & Guthrie, *supra* note 37, at 132. In their research, the impact of "framing" on decision-making was tested. "Framing," in this context, "refers to the idea that people are risk averse in the face of what they perceive as a potential gain and risk-seeking in the face of what they perceive as a potential loss. In other words, people will often take the same risks to avoid a loss that they will refuse to take to realize a gain of the same magnitude." *Id.* at 130. Korobkin and Guthrie's final finding was that "if an offer made by one party is either marginally within the other party's range of acceptable settlements or marginally outside the other party's range, the frame could affect whether the dispute settles out of court or goes to trial." *Id.* at 137-38. Taking Korobkin and Guthrie's conclusion one step further, this Article suggests that the scope of uncertainty as to the legal analysis influences the acceptable range of settlements, and thus allow more settlements to be accepted. Later research on behavioral aspects of litigants reinforced the framing theory's influence over decision-making in litigation. *See* Jeffrey J. Rachlinski, *Gains, Losses and the Psychology of Litigation*, 70 S. CALIF. L. REV. 113, 167 (1996).

39 *See* Margaret Meriwether Cordray, *Settlement Agreements and the Supreme Court*, 48 HASTINGS L.J. 9, 9 (1996) ("[I]n 1994 the Supreme Court decided three cases-Kokkonen v. Guardian Life Insurance Co. of America, Digital Equipment Corp. v. Desktop Direct, Inc., and U.S. Bancorp Mortgage Co. v. Bonner Mall Partnership-which involved issues relating to settlement agreements.
In light of the relative rarity of such cases in the Supreme Court, this trilogy of decisions provides significant insight into the Court's views about settlements and, more specifically, about the established public policy favoring the private settlement of disputes.") (internal citations omitted); *see also* Marek v. Chesny, 473 U.S. 1, 10 (1985) ("In short, settlements rather than litigation will serve the interests of plaintiffs as well as defendants."); G. Heileman Brewing Co. v. Joseph Oat Corp., 871 F.2d 648, 664 (7th Cir. 1989) ("Settling litigation is valuable, and courts should promote it.").

give a compromised decision. The combination of legal uncertainty and the all-or-nothing approach, therefore, fosters the rational choice of settling disputes without going to trial. Indeed, some scholars hold the view that under some circumstances of legal uncertainty, litigation is more efficient than settlement,[40] and that as the final outcome of the trial is unknown, the chances for settlement are reduced.[41] In other words, there is a view according to which rational parties would prefer to litigate under legal uncertainty, being the efficient choice. However, as far as copyright law is concerned, there is evidence to support the conclusion that legal uncertainties, accompanied by the all-or-nothing approach, encourage a non-litigation strategy.[42]

Perhaps the best evidence for the disincentive to litigate in copyright law is the scarcity of decisions defining the boundaries of the fair use doctrine. Barton Beebe's empirical research on fair use litigation in the U.S. during the years 1976-2005 revealed that there is relatively little litigation on "pure" fair use questions.[43] Given that fair use is a central doctrine in copyright law and, thus, should have been heavily litigated, the logical conclusion is that such issues relating to fair use tend to be settled out of court, or not settled at all.[44]

More specifically, there are certain activities whose fairness has not been tested yet via litigation all the way to verdict under the fair use doctrine, such as the use of copyrighted works in higher education institutions. Uncertainty surrounds the scope of permitted uses of copyrighted materials for educational purposes. Therefore, a chilling effect is created, as reported in a line of reports from the last five years.[45] Several attempts to define permit-

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40 *See* Robert J. Rhee, *A Price Theory of Legal Bargaining: An Inquiry into the Selection of Settlement and Litigation Under Uncertainty*, 56 EMORY L.J. 619, 624 (2006).

41 *See* POSNER, *supra* note 34, at 597-98.

42 *See* Stephen P. Anway, *Mediation in Copyright Disputes: From Compromise Created Incentives to Incentive Created Compromises*, 18 OHIO ST. J. ON DISP. RESOL. 439, 448 (2003).

43 Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978 – 2005*, 156 U. PA. L. REV. 549, 564-65 (2008) ("In the twenty-eight years from the January 1, 1978 effective date of the 1976 Act to the conclusion of 2005, the federal courts produced 306 reported opinions from 215 cases that made substantial use of the section 107 four-factor test. This averages out to 10.9 opinions per year during the twenty-eight year period, with an average of 4.6 opinions per year actually finding fair use. Though sufficient for purposes of basic statistical analysis, this is a surprisingly low number of opinions for such an important area of copyright law, particularly one that has received so much academic attention.").

44 *Id.* at 565-66 ("A number of factors may account for the paucity of reported fair use opinions, the most obvious being that many fair use disputes may never reach the courts.").

45 *See* WILLIAM W. FISHER & WILLIAM MCGEVERAN, THE DIGITAL LEARNING CHALLENGE: OBSTACLES TO EDUCATIONAL USES OF COPYRIGHT MATERIAL IN THE DIGITAL AGE, RESEARCH PUBLICATION NO. 2006-09, (The Berkman Center for Internet & Society at Harvard Law School, Aug. 10, 2006), *available at* http://cyber.law.harvard.edu/sites/cyber.law.harvard.edu/files/BerkmanWhitePaper_08-10-2006.pdf; MARJORIE HEINS & TRICIA BECKLES, WILL FAIR USE SURVIVE? FREE

ted uses through codes of best practices have been made, all of which reflect the lack of—and the need for—a guiding judicial decision.[46] This question of the scope of permitted uses of copyrighted material for educational purposes has been challenged only indirectly in cases where the treatment of the copyrighted materials were made by commercial, non-academic entities, and the fair use claim was rejected—not surprisingly, perhaps.[47] As recently as 2009, for the first time, a suit was filed against a university, challenging various practices that the university claimed were fair use.[48] Both the academic world and publishers are highly interested in reducing the existing uncertainty and clarifying the exact economic scope of the academic market. From an academic point of view, only after a court defines the scope of permitted uses of copyrighted materials for educational purposes can the extent of the chilling effect be assessed accurately, and it may, indeed, be a profound chilling effect. In any case, both parties prefer not to litigate.[49]

Fair use disputes are not the only type of unclear copyright doctrine that is under litigated. The application of the first sale doctrine to the practice of digital sales of digital works is also not represented in the courts. The first sale doctrine, codified in Section 109(a) of the Copyright Act, provides that once lawful copies of a work have been distributed by sale or by another transfer of ownership, the copyright owner's exclusive right ceases with respect to those particular copies, and the purchaser is free to resell or transfer title to those particular copies.[50] One of the most troublesome practices in the copyright realm is the sale of digital

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EXPRESSION IN THE AGE OF COPYRIGHT CONTROL, A Public Policy Report, (Brennan Center for Justice 2005), http://www.fepproject.org/policyreports/WillFairUseSurvive.pdf; Martine Courant Rife & William Hart-Davidson, *Is There a Chilling of Digital Communication? Exploring How Knowledge and Understanding of the Fair Use Doctrine May Influence Web Composing* (Working Paper Series, 2006), *available at* http://ssrn.com/abstract=918822.

46 *See, e.g.*, THE CONFERENCE ON FAIR USE: FINAL REPORT TO THE COMMISSIONER ON THE CONCLUSION OF THE CONFERENCE ON FAIR USE (Nov. 1998), *available at* http://www.uspto.gov/web/offices/dcom/olia/confu/confurep.pdf. Another attempt to design codes of best practices was made by the Center for Social Media at American University and the Program for Information Justice at the University law school. *See* DOCUMENTARY FILMMAKERS' STATEMENT OF BEST PRACTICE IN FAIR USE (American University Washington College of Law 2005), *available at* http://centerforsocialmedia.org/sites/default/files/documents/fair_use_final.pdf.

47 *See* Princeton Univ. Press v. Mich. Document Servs., Inc., 99 F.3d 1381 (6th Cir. 1996); Am. Geophysical Union v. Texaco Inc., 60 F.3d 913 (2d Cir. 1994), *cert. denied*, 516 U.S. 1005 (1995); Educ. Testing Serv. v. Simon, 95 F. Supp. 2d 1081 (C.D. Cal. 1999). See also *Blackwell Publ'g v. Excel Research Grp.*, 661 F. Supp. 2d 786 (E.D. Mich. 2009) for a more recent decision.

48 Cambridge Univ. Press v. Patton, No. 1:08-CV-1425-ODE (N.D. Ga. filed Apr. 15, 2008).

49 The suit was ultimately filed by a British publisher and not an American one. Cambridge Univ. Press v. Patton, No. 1:08-CV-1425-ODE (N.D. Ga. filed Apr. 15, 2008). One possible explanation for this fact is that British publishers enjoy narrow exceptions that strengthen their rights under English law, and therefore they were motivated to clarify the rules governing the academic market in the United States as well.

50 17 U.S.C. § 109(a) (2000).

works, especially in the sale of software.[51] In the first generation of sales of digital works, the transfer of the work was accomplished by means of physical copies. The software industry was particularly concerned about the potential consequences of the first sale doctrine to such practice, since it would permit the owner of the physical copy of the software to dispose of it by sale or other transfers of title. The industry's solution was to establish the familiar practice of selling software *licenses*, specifying that the physical *copy* remains the property of the copyright owner, with the result that the first sale doctrine does not apply, and the copyright owner is free to restrict the use of the physical copy.[52] The question of the validity of this licensing model was challenged in court, and was litigated extensively. Unfortunately, there is no clear answer due to contradicting decisions.[53]

The issue becomes more complicated when considering the second generation of software sales, including other digital works. Today, software is sold as a digital file, and is often transmitted via the internet; thus there is no transfer of any physical asset incorporating the digital work to which a hypothetical contract could be attached. This form of commerce raises the question of whether such sales fall within the ambit of the first sale doctrine.[54] This problem is not unique to software sales, and it exists with respect to all digital works, including music and films. The need for a clear legal standard is therefore acute.[55] If the first sale doctrine applies, then after the first transmission the copyright owner can no longer control further distribution of the digital file, even though subsequent distributions would be accomplished through reproduction. If, however, the first sale doctrine does not apply, due to the fact that reproductions are involved in the course of

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51 *See* Orit Fischman Afori, *Implied License: An Emerging New Standard in Copyright Law*, 25 SANTA CLARA COMPUTER & HIGH TECH. L.J. 275 (2009).

52 Microsoft Corp. v. DAK Indus., 66 F.3d 1091, 1095-96 (9th Cir. 1995); Ryan J. Casamiquela, *Electronic Commerce: Contractual Assent and Enforceability in Cyberspace*, 17 BERKELEY TECH. L.J. 475, 493 (2002).

53 In *ProCD, Inc. v. Zeidenberg*, the Seventh Circuit Court of Appeals held that (shrink-wrap) licensing agreements included with off-the-shelf software products are valid contracts. *See* ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1449, 1454-55 (7th Cir. 1996). The holding generated considerable academic debate regarding its contractual implications and potential effect on consumers. *See, e.g.*, Pamela Samuelson, *Intellectual Property and Contract Law*, *supra* note 1, at 4-5. A turning point was *Adobe Sys., Inc. v. Stargate Software Inc.*, 216 F. Supp. 2d 1051, 1058-59 (N.D. Cal. 2002), where the court rejected previous decisions affirming the practice of selling licenses and not tangibles incorporating copyrighted works. However, recently, the Ninth Circuit reaffirmed the practice of software licensing, holding that there was no transfer of ownership of software according to its license, therefore, the first sale doctrine does not apply. *See* Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010).

54 *See* NIMMER & NIMMER, *supra* note 25, § 8.12[E]; Brian Mencher, *Digital Transmissions: To Boldly Go Where No First Sale Doctrine Has Gone Before*, 10 UCLA ENT. L. REV. 47, 48 (2002).

55 *See* NIMMER & NIMMER, *supra* note 25, § 8.12[E].

distribution, then the question is whether the copyright owner can enforce a condition of "forward and delete," in order to prevent the creation of copies of the software.[56] In 2001, the United States Copyright Office issued its § 104 Report, as mandated by the Digital Millennium Copyright Act (DMCA),[57] on whether the first sale doctrine applies to digital transmissions. The Copyright Office recommended that the doctrine *not* be extended to digital transmissions for several reasons, stemming from the difference between physical and digital copies.[58] The report is not binding on courts, and, thus, the question remains as to whether the first sale doctrine should be extended to cover digital formats, and on what basis.[59] The issue has not yet been decided by the legal system, despite its importance. It would appear that the disincentive to litigate is at least partially responsible for this fact.[60]

1. Non-Litigation Enhances the Chilling Effect by Perpetuating Uncertainties

Due to the litigation-averse environment, spurred from the uncertainties of copyright law and the inflexible approach to remedies, the open standards that exist in copyright law have not been developed within the framework of common-law adjudication, despite the fact that this was the legislative intent underlying some of the open standards that were codified. As a result, the disincentive to litigate, along with the uncertainties of the law themselves, seem perpetuated indefinitely.[61]

Landes and Posner theorize that the court decisions in common law systems have two functions: "dispute resolution – determining whether a rule was violated," and "rule formulation – creating rules of law as a by-product of the dispute settlement

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56 *See id.*; *see also* Victor F. Calaba, *Quibbles N Bits: Making a Digital First Sale Doctrine Feasible*, 9 MICH. TELECOMM. TECH. L. REV. 1, 11-18 (2002).

57 U.S. COPYRIGHT OFFICE, DIGITAL MILLENNIUM COPYRIGHT ACT SECTION 104 REPORT xviii-xix (Aug. 2001), *available at* http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-1.pdf.

58 *Id.* at 87-88, 91.

59 *See* NIMMER & NIMMER, *supra* note 25, § 8.12[E]; *see also* Calaba, *supra* note 56, at 26-27 (proposing to enact a clear digital first sale rule).

60 *See* NIMMER & NIMMER, *supra* note 25, § 8.12[E].

61 *See* Depoorter, *supra* note 11, at 1837:

> If a legal standard is uncertain, some individuals may overestimate the legal constraints and forego beneficial actions, while others may underestimate the very same constraints and carry out costly actions. Excessive compliance induces cultural impoverishment, especially when it causes artists to avoid incorporating copyrighted material even though the use might be considered noninfringing. In other instances, uncertainty may induce underdeterrence, leading to litigation costs and further polarization between copyright holders and users of technology.

Calfee and Craswell have observed that the consequences of "over-compliance" with the law, stemming from uncertainty as to the content of the legal norm, are a negative externality of social benefits. *See* Calfee & Craswell, *supra* note 11, at 966-967.

process."[62] The rule formulation means "particularizing the standards of socially desired behavior in order to promote compliance with them."[63] In copyright law, the rule formulation function of the common law seems to be in stagnation, because of the mentioned combined effects. Therefore, potential users do not know which rules they should comply with and, consequently, the chilling effect perpetuates. Hence, it is in society's economic interest that copyright disputes be brought to resolution through the court system, even if the parties and sometimes the courts view private settlements as the most efficient choice because it reduces transaction costs.[64]

It should be noted that Posner has suggested a second theory as to why the common law system may be inefficient, one in which uncertainties *encourage*, rather than discourage, litigation. According to Posner, common law suffers from a circular evolutionary process, in which inefficient rules—e.g., rules that create uncertainty—will be litigated and eventually clarified by common law courts, whereas efficient rules will go unchallenged and thus unreviewable by the courts, with the result that they will not be updated on a regular basis, and over time will become less efficient.[65] In short, the common law system may not necessarily result in efficient legal rules.[66] However, this theory is subject to several criticisms. As Posner himself has pointed out, whether an inefficient rule is challenged is at least, in part, a function of the persons affected by the rule: if the rule affects a powerful player then it may well be litigated, which would accelerate efficiency, whereas weaker potential litigants might have no motivation to invest re-

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62 William M. Landes & Richard A. Posner, *Adjudication as a Private Good*, 8 J. LEGAL STUD. 235, 236 (1979).

63 *Id.*

64 *See* Anthony Ciolli, *Lowering the Stakes: Toward a Model of Effective Copyright Dispute Resolution*, 110 W. VA. L. REV. 999, 1004 (2008):

> These unjust outcomes [i.e. – settlements] not only harm the parties that feel forced to enter into such agreements, but also go against the public interest, for "judicial interpretation of statutes that are important to large numbers of people," such as the Copyright Act, "can be rendered only in the context of resolving cases or controversies." The development of copyright law is significantly inhibited when parties in copyright infringement disputes are induced to accept inequitable settlements – or in some cases to not even pursue claims against infringers – because they cannot afford the high costs of federal litigation or accept the long delays before a federal court renders a final judgment.

Id. at 1009 (quoting Rex E. Lee, *The American Courts as Public Goods: Who Should Pay the Costs of Litigation?*, 34 CATH U. L. REV. 267, 274 (1985)). A similar view is held with respect to patents. *See* Jay P. Kesan & Gwendolyn G. Ball, *How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 WASH. U. L. REV. 237, 244-46 (2006) (proposing that while parties and courts prefer to settle disputes over the validity of patents, settlement is not the most efficient choice from a public interest point of view (society's economic interest being that invalid patents should be canceled and not licensed), and suggesting a reform of patent law so as to give incentives to litigate patent disputes).

65 *See* POSNER, *supra* note 34, at 604.

66 *Id.*

sources litigating the rule if the costs of litigation are higher than the potential benefits of winning.[67] Other scholars have stressed the role of chance in the selection of cases that are brought to trial, describing the process as chaotic.[68] But what is clear from the scholarly debate over the efficiency of the common law is that there is general agreement that litigation generally encourages efficiency.[69] One may conclude, therefore, that the absence of litigation plays a part in preventing the "evolutionary" process of common law from unfolding, in turn creating legal inefficiencies.[70]

2. Settling Cases Enhances the Chilling Effect by Inducing Potentially Unnecessary Payments

In addition to the failure caused by the absence of litigation presented above, the tendency to settle copyright disputes also contributes to the preservation of the chilling effect. Settlements may be motivated by the same risk-averse behavior which leads to acquiring licenses even when it is uncertain whether such licenses are legally required.[71] In other words, in uncertain legal situations, settlements may be preferred simply in order to avoid the risk of the copyright owner winning a judgment granting him or her all available remedies. Moreover, the user of the copyrighted work has a weaker bargaining position in settlement negotiations than

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67 *Id.*

68 *See, e.g.*, Mark J. Roe, *Chaos and Evolution in Law and Economics*, 109 HARV. L. REV. 641, 642-43 (1996).

69 Nevertheless, it should be noted that another failure which prevents the common law from evolving efficiently is that even when copyright disputes do result in a judicial decision, courts sometimes replace the codified open standard with another, judge-made, open standard, thus not advancing the process of clarifying legal norms. The best example of this failure is found in the seminal case of *Feist Publ'ns v. Rural Telephone Co., Inc.*, 499 U.S. 340 (1991). The Supreme Court had to decide whether a white pages phone book is a copyrighted work, and, in order to do so, had to clarify the boundaries of the term "originality" in copyright law. *Id.* at 344-45. The Supreme Court established a new requirement for interpreting the originality standard-the "modicum of creativity." *Id.* at 346. However, the Court did not elaborate upon this new requirement. As a result, *Feist* did not provide much certainty regarding the law and the basic "originality" standard. *See* Diane Leenheer Zimmerman, *It's an Original! (?): In Pursuit of Copyright's Elusive Essence*, 28 COLUM. J.L. & ARTS 187, 188 (2005) ("What is the minimum necessary to satisfy Feist's demand for creativity? On this point, the opinion offered no real answer.") Depoorter has identified a tendency of courts to hesitate especially when there is a need to apply existing norms to new technologies. *See* Depoorter, *supra* note 11, at 1837-38. The outcome is that a common law system has not yet emerged, since court decisions seem to contribute toward further confusion. For a similar insight see Gibson, *supra* note 6, at 905-06. This result fosters, too, the tendency not to litigate. *See* John P. McDonald, *The Search For Certainty*, 17 DAYTON L. REV. 521, 533-37 (1992) (describing the confusion in lower courts in applying the *Feist* decision); *see also* Ethan R. York, Warren Publ'g Inc., v. Microdos Data Corp.*: Continuing the Stable Uncertainty of Copyright in Factual Compilations*, 74 NOTRE DAME L. REV. 565 (1999).

70 Roe, *supra* note 68, at 641; *see also* Paul H. Rubin, *Why is the Common Law Efficient?*, 6 J. LEGAL STUD. 51, 51 (1977) ("[F]or the common law to remain efficient it must change as conditions changes, changes in the common law require that some cases be litigated.").

71 For the general connection between settlements and risk-averse behavior, see W. Cris Lewis & Tyler J. Bowles, *The Economics of the Litigation Process and the Division of the Settlement Surplus: A Game-Theoretic Approach*, 6 J. LEGAL ECON. 1 (1997).

the in-advance potential licensee since the copyright owner can threaten litigation, as the alleged infringing has already taken place by the user. Pressure to accept a "one-sided settlement agreement" is especially likely to exist when the copyright owner itself has deep pockets.[72] Therefore, in light of Gibson's observation in mind, that a "licensing culture" exists in the copyright arena, in which a practice of "buying" legal safety in advance has become the common norm,[73] it is feasible that a similar "settling culture" is developing.[74] Both cultures perpetuate the chilling effect in a similar manner, as they induce users to pay costs, which may not have been realized if the dispute had been litigated. As a consequence, the cost of using copyrighted works increases at all levels of the entire market, and many desirable uses of such works are prevented.[75] Gibson estimates that risk-takers constitute a minority of users and that most of the copyright market operates on the in-advance licensing norm.[76] Yet, this settling culture might have a complimentary chilling effect. Moreover, it seems impossible to measure, even roughly, the division of the copyright market between non-risk-takers, who acquire licenses, and risk-takers, who use work without permission, preferring to settle with the copyright owner if their unauthorized use is challenged. Therefore, it may indeed be that the settling culture, like the licensing culture, plays a significant role in continuing the chilling effect.

II. FLEXIBLE REMEDIES AS A MEANS OF PROMOTING EFFICIENCY

The most effective solution to some of these problems in copyright law is to develop a broader range of flexible remedies, ones which will enable the courts to grant appropriate relief on a case-by-case basis. In subsection A, below, the advantage of tailor-

72 Ciolli, *supra* note 64, at 1004 (arguing that individuals and other defendants with limited resources are induced into accepting one-sided settlement agreements when the plaintiff copyright holder is wealthy). Ciolli provides the example of *Grokster Ltd.*, the lead defendant in *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005), which "accepted a settlement agreement that required the company to stop giving away its software, pay $50 million, send anti-piracy messages to its current users, and change its website . . . ." Ciolli, *supra* note 64, at 1004 (internal quotation marks omitted). Such pressure may also occur when the plaintiff has limited resources and the defendant is the wealthy party. *Id.* at 1006-07.

73 *See* Gibson, *supra* note 6, at 899-900.

74 Anway's notion is that copyright disputes are well suited for non-litigation dispute resolution, such as mediation, even more than other non-intellectual property cases, because of the parties' interest to avoid the uncertainties and high cost of copyright litigation. *See* Anway, *supra* note 42, at 441, 449 - 450. In particular, the ambiguity of the fair use doctrine may encourage the use of non-litigation methods. *See* Anway, *supra* note 42, at 448 ("It is within the fair use context (and the context of several other ambiguous copyright issues) that mediation provides one of the primary benefits to copyright disputants."). For the feasibility to settle copyright conflicts through different dispute resolution mechanisms, such as mediation, see Anway, *supra* note 42, at 450.

75 *See* Gibson, *supra* note 6, at 899-900.

76 *Id.*

ing remedies so as to encourage litigation and reduce the chilling effect will be presented. In subsection B, theoretical inquiries concerning remedies will be discussed. Subsection C, presents some of the international law implications of a flexible remedies approach. The following Part III will illustrate the application of this proposal with some concrete examples of flexible remedies.

A. *Tailoring Remedies in a Manner Designed to Reduce the Chilling Effect*

If courts were freed from the need to grant relief on an either-or basis, and a more flexible approach to remedies was adopted generally, then the focus of courts would shift to reaching the best possible result, which could include compromise solutions. What is meant by "flexible remedies"? The simple answer is that courts should review each case individually, and should determine the appropriate remedies based not on a rigid "property rule" or "liability rule" analysis, but in a manner that reflects all the relevant interests.

There are two basic categories of remedies in copyright law: injunctive relief and monetary relief. Providing for a more flexible range of remedies would enable the courts to fine-tune both types of relief. For instance, instead of simply granting injunctive relief as such, courts should define the parameters of the relief by asking such questions as: What does the injunction cover, and for how long? When should it be denied? In the case of monetary relief, courts should determine the extent of harm suffered by the plaintiff, and how best to compensate for such harm and to avoid overcompensation. There are many other issues as well. For instance, should courts take into account a hypothetical contractual price for the use of the work?[77] What should the relationship be between actual damages and statutory damages?[78] In case where there were pre-existing contractual relations between the parties, should contractual remedies or copyright infringement damages be granted?[79] Can courts establish a royalty scheme for future uses

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77 *See infra* Part III B. 1.

78 For a discussion of this issue, see Alan E. Garfield, *Calibrating Copyright Statutory Damages to Promote Speech*, 38 FLA. ST. U. L. REV. (2010); Colin Morrissey, *Behind the Music: Determining the Relevant Constitutional Standard for Statutory Damages in Copyright Infringement Lawsuits*, 78 FORDHAM L. REV. 3059 (2010); Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439 (2009).

79 For discussion of this issue, see Maureen A. O'Rourke, *Rethinking Remedies at the Intersection of Intellectual Property and Contract: Toward a Unified Body of Law*, 82 IOWA L. REV. 1137 (1997). For a discussion of the basic question of whether there is an infringement of copyright or a breach of contract in cases where there are contractual relations between the parties, see Omri Ben-Shahar, *Damages for Unlicensed Use* (Univ. Chicago Law Sch. John M. Olin Law & Econ. Working Paper No. 534, 2d series, 2010), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1677667. Ben-Shahar argues that if the unauthorized use was engaged in by a licensee, "the probability of detection . . . is . . .

of a work based on the future revenues of the defendant in cases where an injunction has been denied?[80] The list goes on.

This flexible approach to remedies would encourage parties to litigate in cases where the legal standard is unclear, as the risk of emerging from the litigation process with nothing in hand would be significantly reduced. The tailoring of remedies by courts might also encourage litigation, or at least provide significantly less *dis*couragement of litigation, since parties would not necessarily be better off if they negotiated remedies privately. Realizing that the final result would in many cases be a compromise solution, and taking into account all the drawbacks of private settlements,[81] some parties would then prefer to leave the decision to the courts, since they would have much less at risk, as compared to a scheme of inflexible remedies. Although litigating the appropriate remedies would entail transaction costs, negotiation is also costly, and adding a potential for reduced damages could turn litigation into the less costly option of the two.[82] Over time, a body of case law might be created, which would increase certainty as to the outcomes of such cases and, ultimately, reduce transaction costs. Settlements could also be authorized by the courts, and, if made in the absence of confidentiality,[83] the settlements could then be incorporated into the common law process of precedent.[84]

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higher than if the unauthorized use occurred in the absence of [a] license." *Id.* at 16. In such a scenario, there is then no justification for "excess compensation, [which] is a way to offset the under-deterrence arising from imperfect detection." *Id.* In other words, when an unauthorized use occurs and there is a contract between the user and the owner of the right, that use should, generally, constitute a breach of contract with corresponding contractual remedies, and not copyright infringement. *See id.* at 17.

80 For a discussion of this issue with respect to patents, stressing the problems stemming from "on-going" royalties, see Tim Carlton, *The Ongoing Royalty: What Remedy Should a Patent Holder Receive When a Permanent Injunction is Denied?*, 43 GA. L. REV. 543 (2009); Bernard H. Chao, *After* eBay, Inc. v. MercExchange: *The Changing Landscape of Patent Remedies*, 9 MINN. J.L. SCI. & TECH. 543 (2008); H. Tomás Gómez-Arostegui, *Prospective Compensation in Lieu of a Final Injunction in Patent and Copyright Cases*, 78 FORDHAM L. REV. 1661 (2010).

81 *See* Ciolli, *supra* note 64, at 1004.

82 Patent litigation is known to be very expensive, and its cost has been estimated to be between $500,000 and $4 million, according to the risk of suit. *See* James Bessen & Michael J. Meurer, *Lessons for Patent Policy from Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 2 (2005). Copyright litigation, in contrast, is usually less expensive. *See* Ciolli, *supra* note 64, at 1003-04 (estimating the cost of copyright low risk suit litigation to be $100,000). Thus reduced damages granted by court may give an incentive to litigate.

83 For the advantage of out-of-court settlements due to confidentiality, see POSNER, *supra* note 34, at 600.

84 For private dispute resolution as part of the common law mechanism, see Landes & Posner, *supra* note 62, at 236-38. A good example of settlements that have precedential force is the royalties fee market that is paid by broadcasting companies to copyright collective societies in countries in which such a market is not regulated by any official tribunal. *See, e.g.*, Thomas Riis & Jens Schovsbo, *Extended Collective Licenses and the Nordic Experience - It's a Hybrid but is it a Volvo or a Lemon?,* 33 COLUM. J.L. & ARTS 471, 471 (2009-2010) ("[p]resenting the advantages of an extended collective license [which] is a legal model whereby the binding effect of a collective agreement between an organization of copyright holders and a user of copyrightable works is extended to right holders who are not

Even if a flexible range of remedies did not *encourage* litigation, it would nevertheless have an effect on settlements, since one of the major factors in determining a settlement amount is the potential award that would be granted by court.[85] Therefore, a flexible approach to remedies might reduce the compensation agreed upon in private settlements, and consequently reduce the chilling effect.

Moreover, a flexible range of remedies may reduce the risk-averse behavior of potential users of copyrighted works since the costs associated with a misjudgment of a copyrighted material's use would be lessened. In other words, if a potential user knew that if the case were to be taken to court, and even if the court decided in favor of the plaintiff, it would not automatically mean that the copyright holder would be entitled to *all* available remedies under the law, but rather the remedies would be tailored to the circumstances of the case, then the risk of using the work would be reduced significantly. In this way, overcoming the all-or-nothing approach may reduce the major chilling effect created by avoidance of making use of copyrighted works.

It should be admitted that tailored remedies would not *necessarily* lead to the development of a common law system of copyright.[86] Traditionally, the common law has been concerned with the allocation of losses arising from a specific event, but its basis for decisions is, at the same time, forward-looking, in order to prevent future loses.[87] By contrast, tailored remedies require taking into account the specific factors of the case, and therefore they may not necessarily enable observers to discern a "pattern" of determination of appropriate remedies that would be granted in future cases. But the fundamental incentive *not* to use the work and *not* to litigate this use due to the all-or-nothing flaw would nevertheless be virtually eliminated, reducing some of the chilling effect.

Tailored remedies might also encourage potential users not to acquire a license when the need for one is doubtful, and thus use the copyrighted work without the authorization of its owner. In that respect, Gibson's insight that courts and the legislature play at best only a secondary role in the risk-averse "licensing culture,"[88] is not entirely accurate. Courts stimulate this "licensing

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members of the organization").
85 *See* POSNER, *supra* note 34, at 597-98.
86 *See* Gibson, *supra* note 6, at 905-06 (explaining that no precedent is created due to the fact that the Supreme Court remands decisions to lower courts for further consideration of the license at issue).
87 *See* A. MITCHELL POLINSKY, AN INTRODUCTION TO LAW AND ECONOMICS 130 (2d ed. 1989).
88 *See* Gibson, *supra* note 6, at 900-01.

culture" by maintaining the available remedies as a rigid doctrine, which poses high risk on to users. Breaking this rigid approach of courts concerning remedies and allowing a broader range of solutions may completely change the strategic behavior of both users and owners, and stop the practice of acquiring un-needed licenses for the use of copyrighted material.

Over the last few years, scholars have discussed the need to use remedies with more judicial discretion, although from the narrow perspective of finding the appropriate way to reflect specific interests, and not as a need for overall reform. For example, the justification to deny injunctive relief in order not to restrain freedom of speech has been proposed, both by Supreme Court and in academic articles,[89] and the Supreme Court recently approved the denial of injunctive relief in a patent infringement case, in order to preserve the overriding interest of free competition.[90] In addition, academic writing in the last few years has given attention to the link between statutory damages and the chilling effect.[91] The time has come to develop a doctrine that can accommodate a broad range of remedies and that will vest courts with the discretion to grant the appropriate remedies for each specific unauthorized copyright use before them.[92]

B. *Rethinking Remedies*

The project of rethinking remedies in the field of copyright law may be approached from several directions. One way would be to challenge the basic notion of copyright as a property right (or, alternatively, to challenge the legal meaning of identifying copyright with the brand of "property"). As mentioned above, a debate on the notion of copyright as property is currently taking place.[93] Wendy Gordon has added to the discussion by providing an important analysis of why copyright law should abandon the

89 *See* Campbell v. Acuff Rose Music Inc, 510 U.S. 569, 578 n.10 (1994); Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147, 152-153 (1998); *see also* K. J. Greene, *Motion Picture Copyright Infringement and the Presumption of Irreparable Harm: Toward a Reevaluation of the Standard for Preliminary Injunctive Relief*, 31 RUTGERS L.J. 173, 207–08 (1999); Lisa Rycus Mikalonis, *Preliminary Injunctions, Copyright, and the First Amendment: Does the Presumption of Irreparable Harm Infringe the Speech Interests of Copyright Defendants?*, 65 OR. L. REV. 765 (1986). In few other cases the court has revealed again its opinion that injunctions should not be granted automatically in copyright infringement cases. *See, e.g.*, New York Times Co. v. Tasini, 533 U.S. 483 (2001); Stewart v. Abend, 495 U.S. 207 (1990); Suntrust Bank v. Houghton Mifflin Co., 268 F.3d 1257, 1259, 1265 (11th Cir. 2001); Abend v. MCA, Inc., 863 F.2d 1465, 1479 (9th Cir. 1988).

90 *See* eBay, Inc. v. MercExchange, 547 U.S. 388 (2006).

91 *See* sources cited *supra* note 78.

92 For a similar view, see Geller, *supra* note 22, at 61 (proposing not only to deny injunctions in cases where derivative works show significant originality, but also to adjust monetary remedies based on the extent of the originality added by the infringer to the derivative work).

93 *See supra* note 29.

strict liability model of real-property trespass.[94] Also, Shyamkrishna Balganesh has suggested that since the underlying constitutional and traditional motivations for acknowledging copyright are through *incentives*, a measurement of foreseeability should be employed in imposing liability in order to tailor the cause of action to the incentives.[95]

Another way to rethink remedies is by focusing on the analysis of remedies as a discretionary vehicle for courts to define the appropriate way to achieve a specific result, without getting into the meaning of the classification of rights as "property" rights or a "tort."[96] Indeed, as Calabresi and Melamed have shown, rights and remedies are functionally related, in the sense that the right may be defined according to the remedies it proposes.[97] However, the proposed route in this article reflects a more pragmatic approach, as it is based on the realization that rights are defined through the entitlement to remedies. It also acknowledges that remedies could be developed within a framework that allows a "cure" theory, which is separate from the "rights" theory, to grow. According to this second path, remedies are not simply an automatic response to the analysis of the right, but rather a second stage of legal theory to be discussed in order to best achieve the legal effect, after the first stage of the right's relevant discussion has been exhausted.

Wendy Gordon, in her influential 1982 article on fair use, wondered whether "[t]here are limitations on judicial expertise," and commented that "whether the courts themselves are the appropriate institutions to 'cure' market failure by inventing methods of compulsory transfer or by setting copyright prices is a very real question."[98] The answer proposed here is that, indeed, defin-

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94 *See* Wendy J. Gordon, *Trespass–Copyright Parallels and the Harm-Benefit Distinction*, 122 HARV. L. REV. F. 62 (2009) [hereinafter Gordon, *Copyright Parallels*].

95 *See* Shyamkrishna Balganesh, *Foreseeability and Copyright Incentives*, 122 HARV. L. REV. 1569, 1574 - 75 (2009) [hereinafter Balganesh, *Foreseeability*]:

> This Article argues that, following from the common law's use of foreseeability to mark the outer boundaries of its incentive structure in a variety of contexts, copyright law ought to employ a test of foreseeability to determine the point up to which a copyright owner should be allowed to internalize the gains from his work. In determining liability for infringement, applying a test of foreseeability would require a court to ask whether the use complained of is one that the copyright owner (that is, the plaintiff) could have reasonably foreseen at the time that the work was created (that is, the point when the entitlement commences). Adopting an approach along these lines is likely to present courts with a solution to the problem of new uses and later-developed technologies, and a rational basis on which to mark the outer boundaries of copyright's grant of exclusive rights-questions that have hitherto been resolved entirely on an ad hoc basis.

96 For a similar view, suggesting that a special combination of "property rule" and "liability rule" is tailored to each intellectual property right, see Jerome H. Reichman, *Legal Hybrids between the Patent and Copyright Paradigms*, 94 COLUM. L. REV. 2432, 2504-2558 (1994).

97 *See* Calabresi & Melamed, *supra* note 27.

98 Gordon, *supra* note 5, at 1623.

ing remedies is primarily a judicial expertise. Further, the judiciary *should* employ its full authority and discretion in order to develop a comprehensive "cure" doctrine that would ease some of the basic problems of copyright law. Remedies are the ideal vehicle for striking an appropriate balance between competing interests.

Copyright law would serve as an ideal experimental field for developing an independent framework for remedies, since it contains characteristics that are needed to justify separate treatment.[99] These characteristics are: the inherent difference in the protected asset (which is intangible and contains information); the opposing interests to be balanced; the implications of controlling the protected asset on the free flow of ideas and on the overall democratic discourse; and for the differing justifications at play for acknowledging copyright as opposed to property rights with respect to tangible assets.[100]

As mentioned above, scholars have proposed different ways to make copyright law more flexible in order to advance the public interest. For example, Wendy Gordon has proposed introducing a harm-benefit calculus into copyright liability,[101] and Balganesh has proposed determining liability based on whether the infringing use was foreseen by the creator and control over such use was part of his or her initial incentive to create the work.[102] It might be that this harm-benefit and foreseeability analysis would be relevant in the later stage of tailoring the appropriate remedies, rather than in the stage of determining liability. Courts could first conclude that an infringement occurred, and at the remedies stage conclude that no damages (or only reduced damages) are warranted if there was no harm or there was no injury to the incentives foreseen by the creator. The introduction of such relevant factors or others that would be developed in the future, within the calculation of remedies is consistent with judicial discretionary authority. A factor-analysis is also preferable from a pragmatic point of view, since it would be perceived as an ad-hoc treatment of disputes and not as a comprehensive legal reform.

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99 For a similar view, that copyright law should be developed autonomously in the context of the criminalization of copyright law, see Brian M. Hoffstadt, *Dispossession, Intellectual Property, and the Sin of Theoretical Homogeneity*, 80 S. CAL. L. REV. 909, 914-17 (2007).

100 *See supra* note 29; *see also* Shyamkrishna Balganesh, *Demystifing the Right to Exclude: Of Property, Inviolability and Automatic Injunctions*, HARV. J. L. & PUB. POL'Y 593 (2008) [hereinafter Balganesh, *Demystifing*].

101 Gordon, *Copyright Parallels*, *supra* note 94, at 66-74. *See also* Bohannan, *supra* note 29, at 979-80 (proposing that the question of harm should be inserted at least into the fair use doctrine, in order to reflect the constitutional justification for copyright).

102 Balganesh, *Foreseeability*, supra note 95, at 1574-75.

C. *Flexible Remedies in the Context of International Law*

International law permits using remedies, as proposed here, as a method of correcting some of copyright law's most fundamental flaws. The two most important instruments in international copyright law are the Berne Convention for Protection of Literary and Artistic Works (the "Berne Convention"),[103] and the Agreement on Trade-Related Aspects of Intellectual Property (the "TRIPS Agreement").[104] Both instruments determine the minimum scope of rights that must be acknowledged by the signatories to the agreements.[105] However, the remedies which should be granted in the case of infringement of these rights are less strict, and there is no binding minimum measurement. The Berne Convention hardly touches on remedies, requiring only that when seizing infringing copies of copyrighted material, remedies should be made available in member states.[106] At the same time, it clarifies that "the seizure shall take place in accordance with the legislation of each country."[107] This clarification reflects the Berne Convention's general policy regarding remedies: effective remedies should exist, but the details are left to each country based on its domestic legislation.

The TRIPS Agreement, in contrast, focuses on the entitlement to remedies. Part III of the TRIPS Agreement[108] is devoted to issues of enforcement of intellectual property rights, including procedure and remedies. The same policy applies as in the Berne Convention, requiring member states to acknowledge all needed remedies while leaving the shaping of the remedies to the discretion of the signatories based on their domestic laws. Article 41 of the TRIPS Agreement[109] requires that appropriate remedies should be provided by each member state. Article 44 requires that there be injunctive relief available. Article 44[110] also enumerates potential exceptions to injunctive relief, such as lack of prior knowledge (or reasonable grounds to know) that the activity infringed on another persons' rights;[111] or, if the rights holder is paid adequate remuneration under the circumstances of each case

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103 The Berne Convention for the Protection of Literary and Artistic Works, July 24, 1971, 25 U.S.T. 1341, T.I.A.S. No. 7868 [hereinafter Berne Convention].
104 Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments (Uruguay Round), 33 I.L.M. 81 (1994) [hereinafter TRIPS Agreement].
105 *See* Berne Convention, *supra* note 103, art. 5 (right guaranteed by the convention); TRIPS Agreement, *supra* note 101, art. 1.
106 *See* Berne Convention, *supra* note 103, art. 16 (1).
107 *See* Berne Convention, *supra* note 103, art. 16 (3).
108 TRIPS Agreement, *supra* note 104, part III.
109 TRIPS Agreement, *supra* note 104, art. 41.
110 TRIPS Agreement, *supra* note 104, art. 44.
111 TRIPS Agreement, *supra* note 104, art. 44 (1).

by the user, taking into account the market value of the license to use such work.[112] The term "adequate remuneration" is not common in intellectual property legislation, and Daniel Gervais interprets it as "appropriate remuneration in the circumstances" which requires a case-by-case analysis.[113] Rounding out the list of exceptions enumerated by Article 44 of the TRIPS Agreement is a clarification that injunctions should be applicable to the internal law of the member country.[114] Regarding damages and seizure, the same principle of acknowledging the countries' autonomy to shape the remedies applies. The TRIPS Agreement requires that "the judicial authorities . . . have the authority to order the infringer to pay to the right holder" adequate compensation and expenses,[115] and to determine how to dispose goods that have been determined to have infringed copyright.[116] However, as in the case of injunctions, the TRIPS Agreement does not affect the domestic legislation and practices of the signatory states, and is limited to the requirement that such judicial authority to determine remedies must exist, without defining further terms and conditions for the signatory states to adhere to when determining these remedies.[117]

Since under international copyright law remedies are essentially subject to domestic law, this article's proposal to make copyright remedies more flexible is in accordance with the international standard. It should be noted that in the past several years there have been several significant attempts to re-open the discussion in international law with respect to the appropriate scope of intellectual property rights, so as to reflect better the public interest.[118] However, the task is not an easy one, in light of the competing interests that may be affected by redefining intellectual prop-

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112 TRIPS Agreement, *supra* note 104, art. 44 (2) (referring to art. 31 (h)).

113 DANIEL GERVAIS, THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS, 296-97 (2003).

114 TRIPS Agreement, *supra* note 104, art. 44 (2) ("In other cases, the remedies under this Part shall apply or, where these remedies are inconsistent with a Member's law, declaratory judgments and adequate compensation shall be available.").

115 TRIPS Agreement, *supra* note 104, arts. 45 (1), (2).

116 TRIPS Agreement, *supra* note 104, art. 46.

117 See GERVAIS, *supra* note 113, at 293. However, if such authority for granting remedies is regularly not exercised, then under the treaty the authority may be deemed not to exist at all. See *id.*

118 These attempts are known as the "Development Agenda." *See* Proposal By Argentina And Brazil For The Establishment Of A Development Agenda For WIPO, WIPO General Assembly, Thirty-First (15th Extraordinary) Session, Geneva, Sept. 25 to Oct. 4, 2004, WO/GA/31/11 Add, *available at* http://www.wipo.int/edocs/mdocs/govbody/en/wo_ga_31/wo_ga_31_11.pdf; Inter-Sessional Intergovermental Meeting On A Development Agenda For WIPO, Second Session, Geneva, June 20 to 22, 2005, IIM/2/10/Prov. 2, Sec. 20; Doha WTO Ministerial Declaration, WT/MIN(01)/DEC/1, 20 Nov. 2001. In October 2007, WIPO adopted a resolution accepting the need to inspect the development agenda. *See* The 45 Adopted Recommendations Under the WIPO Development Agenda, WIPO, www.wipo.int/ip-development/en/agenda/recommendations.html#c.

erty rights.[119] As a result, the possibility of achieving the goal of promoting the public interest through the development of remedies, which are not strictly defined in international law, should earn more serious attention.

III. ILLUSTRATION OF TAILORED REMEDIES

The potential of a flexible remedies system to resolve copyright law tensions may be illustrated in two ways. The first demonstrates how a nuanced formulation of remedies may best reflect the nexus of interests in concrete cases that are difficult to adjudicate under the current all-or-nothing regime.[120] However, since the article proposes to develop a more comprehensive doctrine with respect to remedies, this way of presenting typical copyright clashes may be anecdotal. A second way of analyzing examples of remedies is preferred as being more suited for developing a comprehensive remedies discourse. Therefore, in the following subsections some ways to tailor the fundamental remedies will be discussed. This analysis is not aimed at covering all possible remedies, but only invoked as an illustration; for the purpose of opening a debate on the potential role of remedies to ease some of copyright law's shortcomings.

A. *Injunctive Relief*

Injunctive relief in the copyright law context is the most commonly discussed remedy in scholarly writing. Article 502 of the Copyright Act[121] authorizes courts to grant temporary and final injunctions on such terms as they "may deem reasonable to prevent or restrain infringement of a copyright."[122] This article preserves the English common-law principle that injunction is an equitable, discretionary relief.[123] Historically, injunctive relief was granted based on discretionary criteria, including the irreparable injury rule (in the absence of an injunction, the plaintiff would be

119 *See* Neil W. Netanel, The WIPO Development Agenda and Its Development Policy Context, *in* THE DEVELOPMENT AGENDA: GLOBAL INTELLECTUAL PROPERTY AND DEVELOPING COUNTRIES 1 (2008), *available at* http://ssrn.com/abstract=1310388.

120 For example, in *Dr. Seuss Enterprises v. Penguin Books*, see *supra* notes 19-21 and accompanying text, an appropriate balance could have been achieved by tailoring a specific package of remedies to the case. First, an injunction could be issued for a short period of time only – or not at all – if it was needed in order to prevent a specific harm to the copyright owner, given the existing market for the work. As a result of the limited injunction, the free speech rights embodied in the satire of the infringing speech would not be completely silenced. As for monetary relief, because the satire's success depends on the underlying originality and reputation of the copyrighted work, damages should be awarded, based on the profits from the satirical work. However, since the satire adds a significant and original contribution, profits should be apportioned so as to reflect the value added by the infringer.

121 17 U. S. C. § 502 (1976).

122 17 U. S. C. § 502 (a) (1976).

123 *See* SARAH WORTHINGTON, EQUITY, 13 (2006).

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).[124] Another important criterion was the public interest.[125] In copyright cases, these equity considerations have survived in temporary injunctions, where they are known as the four-factor test, but they have become a dead letter with respect to final injunctions.[126] Over time, granting injunctive relief became automatic, even when the injury to the defendant via injunction was greater than the original harm caused to the plaintiff by the defendant's infringement.[127] On several occasions the Supreme Court reminded lower courts that injunctive relief was discretionary, and should be granted only when merited.[128] Nevertheless, courts tend to grant injunctive relief automatically, and there are relatively few exceptions.[129] The recent patent decision, *eBay v. MercExchange*,[130] is one such exception. In *eBay v. MercExchange*, the Supreme Court stressed that the grant of injunctive relief must be subject to the equitable four-factor test, even if the patent right is a right to exclude others from using the invention.[131] Following this landmark decision, Judge Calabresi held in *Salinger v. Colting*,[132] that the holding of *eBay v. MercExchange* should apply to copyright cases as well.[133] Indeed, there is no reason to believe that Supreme Court intended to limit it only to patent cases.

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124 *See* JAMES F. FISCHER, UNDERSTANDING REMEDIES 201–02 (2d ed. 2006); DOUGLAS LAYCOCK, THE DEATH OF THE IRREPARABLE INJURY RULE (1991). For the origins of the different considerations see OWEN M. FISS & DOUG RENDLEMAN, INJUCTION 104-08 (1984).

125 *See* COPINGER & SKONE JAMES ON COPYRIGHT, 1018-033 (Kevin Garnett et al. eds., 15th ed. 2005); NIMMER & NIMMER, *supra* note 25, §14.06[A].

126 *See* WILLIAM F. PATRY, PATRY ON COPYRIGHT § 22:1; Lemley & Volokh, *supra* note 89, at 155-56; John Tehranian, *Whither Copyright? Transformative Use, Free Speech, and an Intermediate Liability Proposal*, 2005 BYU L. REV. 1201, 237 (2005).

127 *See* NIMMER & NIMMER, *supra* note 25, § 14.06 [B]; PATRY, *supra* note 126, § 22:1 – 22:3. In the nineteenth century, English courts employed discretion in granting injunctions in copyright cases. For example, in *Lewis v. Fullarton*, 2 Beav. 11 (1839) the court held that "[t]he piracy proved may be so inconsiderable, and so likely to injure the plaintiff, that the court may decline to interfere at all, and may leave the plaintiff to his remedy at law." *See* PATRY, *supra* note 126, § 22:2. Up until the 1920s U.S. courts did not grant an injunction automatically in copyright cases. *See* PATRY, *supra* note 126, § 22:3; Lemley & Volokh, *supra* note 89, at 155-56. In *Dun v. Lumbermen's Credit Ass'n*, 209 U.S. 20, 21-24 (1908), for example, an injunction was not granted since the infringement was minimal. This case was decided before the introduction of the American Copyright Act of 1909, and the Supreme Court referred explicitly in its opinion to the English equitable doctrine that permitted denying injunctive relief and granting monetary relief only.

128 *See* sources cited *supra* note 89.

129 *See, e.g.*, Suntrust Bank v. Houghton Mifflin, 268 F.3d 1257, 1265-267 (11th Cir. 2001) (the "Gone with the Wind case").

130 547 U.S. 388 (2006).

131 *Id.* at 396-97. *See also* James M. Fischer, *The "Right" to Injunctive Relief for Patent Infringement*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1 (2007).

132 607 F.3d 68 (2d Cir. 2010).

133 *Id.* at 75.

There are many advantages to applying equity with respect to injunctions in copyright cases. However, the question of the nature of copyright as a proprietary right when injunctive relief is denied cannot be ignored. If courts may deny injunctive relief in copyright cases then, in the characterization proposed by Calabresi and Melamed, copyright would stop being a "property rule" right and would become a "liability rule" right. This problem could be resolved, as proposed above, by shifting the focus from the classifications of the right to its exact content and aim. After all, all rights are a particular mix of property and liability elements.[134] The question that should be asked is therefore a practical one: when is it appropriate to deny injunctive relief?[135] In other words, there is a need to revive the equity considerations, and allow for a body of case law to develop, rather than debate whether copyright is a property right that is similar to real estate rights. Copyright law should abandon real estate terminology and focus on developing a doctrine for granting or denying injunctive relief. Below, some important arguments for denying-or at least limiting the scope of-injunctive relief are briefly reviewed.

1. Free Speech

A consideration for denying injunctive relief in copyright cases, which has been discussed in both scholarly writing and court decisions, is the constitutional interest in fostering free speech.[136] The Supreme Court has, to date, preferred to resolve this conflict by applying copyright doctrines such as fair use.[137] However, the fair use defense for unauthorized use is not always available.[138] Taking equity considerations into account may help resolve the tensions between copyright restrictions on use and freedom of speech. Where enforcement of copyright would unduly restrict freedom of speech, injunctive relief could be denied and remedies could be limited to monetary damages. Alternatively, an injunc-

134 *See* Reichman, *supra* note 96, at 2504-558.
135 *See* Balganesh, *Demystifing*, *supra* note 100.
136 See, e.g., Michael D. Birnhack, *Freedom of Speech*, *in* NIMMER & NIMMER, *supra* note 25, at Ch. 19E; Eric Brandet, Copyright and Free Speech Theory, *in* COPYRIGHT AND FREE SPEECH, 11 (Oxford Univ. Press, 2005); Robert C. Denicola, *Copyright and Free Speech: Constitutional Limitations on the Protection of Expression*, 67 CALIF. L. REV. 283 (1979); Greene, *supra* note 89, at 207-08; Lemley, *Licensing Market*, *supra* note 17; Lemley & Volokh, *supra* note 89; Mikalonis, *supra* note 89; Melville Nimmer, *Does Copyright Abridge the Guarantees of Free Speech and Press?*, 17 UCLA L. REV. 1180 (1970).
137 *See* Eldred v. Ashcroft, 537 U.S. 186, 212–13 (2003); Harper & Row Publishers, Inc., v. Nation Enters., 471 U.S. 539, 560 (1985).
138 For criticism of the Supreme Court's approach see Benkler, *supra* note 1; Michael D. Birnhack, *The Copyright Law And Free Speech Affair: Making-Up And Breaking-Up*, 43 IDEA 233 (2003); Michael D. Birnhack, *Copyright Law and Free Speech After* Eldred v. Ashcroft, 76 S. CALIF. L. REV. 1275, 293 (2003); Lawrence Lessig, *Copyright's First Amendment*, 48 UCLA L. REV. 1057 (2001); Neil Weinstock Netanel, *Locating Copyright Within the First Amendment Skein*, 54 STAN. L. REV. 1 (2001).

tion could be granted for a limited period of time only, thus protecting the economic interests of the plaintiff while preserving the defendant's free speech interests.

2. High Transaction Costs and Free Competition

Classic law and economic analysis suggests that there are situations in which it is justified to limit the exclusive nature of a property right, for instance, when high transaction costs prevent the use of the protected asset.[139] In the context of copyright law, such a situation often occurs when the copyrighted work is owned by multiple owners. In such a case, if it is impossible to acquire a license from all of the owners, an inefficient situation is created as a result of the current regime in copyright law.[140] This failure could be cured by denying injunctive relief to the plaintiffs, while at the same time granting appropriate licensing fees.[141] Another typical situation is when the owner has a monopoly and there are no real substitutes for the work in question. In such a case, the owner might demand an inordinately high fee for permitting the use of the asset or even prevent its use at all.[142] These situations raise the interest of free competition, regularly dealt with under anti-trust laws. But internal means for promoting free competition are essential. In fact, exceptions and limitations to copyright are a vehicle for introducing free competition interests into copyright law, and there should be no reason why injunctive relief should not take this interest into account as well. This was the case in *eBay v. MercExchange*, in which the Supreme Court denied injunctive relief because of considerations relating to the promotion of competition.[143]

Another means for introducing free competition considerations into copyright laws is through the doctrine of copyright misuse.[144] Under this equitable doctrine, a court may discharge the defendant's liability if there was a misuse of the right by the plaintiff. The law is unsettled as to whether anti-competitive behavior can independently give rise to a claim of copyright misuse, without the defendant being required to show that a breach of anti-trust law had also occurred.[145] In light of the legal obstacles in employ-

139 This exception to property was identified by Coase, accepted by Calabresi and Melamed, and adopted by other scholars. *See* Coase, *supra* note 33; *see also* ROBERT COOTER & THOMAS ULEN, LAW & ECONOMICS, 104 (2004); POSNER, *supra* note 34, at 68-72; Calabresi & Melamed, *supra* note 27, at 1096-100.
140 *See* Gordon, *supra* note 5 at 1621-622.
141 *See* COOTER & ULEN, *supra* note 139, at 105; POSNER, *supra* note 34, at 68-76.
142 See, for example, the Microsoft case concerning the monopoly over operating system software, *United States v. Microsoft Corp.*, 87 F. Supp. 2d 30 (2000).
143 *See* eBay, Inc. v. MercExchange, 547 U.S. 388, 396-97 (2006).
144 *See* NIMMER & NIMMER, *supra* note 25, §13.09 [A].
145 *See* PAUL GOLDSTEIN, COPYRIGHT, PRINCIPLES, LAW AND PRACTICE § 9.6.1 (1989); Tom

ing the copyright misuse doctrine, the possibility of dealing with anti-competitive behavior through remedies would seem to be an effective and pragmatic alternative, and indeed this was the course of action adopted by the Supreme Court in the *eBay* patent case.

3. Public Interest in Use of Works and Their Accessibility to the Public

As already mentioned, the basic tension underlying copyright law is the need to balance the incentive to create and the access to use. In other words, copyright law should not only provide incentives for the creation of works, but also offer means to enhance their accessibility.[146] Denial of injunctive relief can be used as a tool for achieving the appropriate balance between these goals. In cases involving a work of public importance, such as a work containing historical or other scientific value, permitting the use of, and the public access to, the work, despite the otherwise legitimate objections of the copyright holders, may justify denying injunctive relief and granting monetary compensation only. Two examples from outside the United States provide good illustration of this point. In the British case of *Ashdown v. Telegraph Group*, the work at issue was the minutes of a closed political meeting.[147] The Court of Appeals adopted the view that in some (rare) cases denying an injunction was justified due to overriding interests, such as the public's interest in the information contained in a work. The second example is the Israeli case of the *Dead Sea Scrolls*.[148] A biblical scholar reassembled the fragments of one of the Dead Sea scrolls. After acknowledging the copyright available for such reconstructive work, the Israeli Supreme Court determined that the reproduction of the reassembled text infringed copyright and refused to apply the fair dealing doctrine.[149] The question that *should* be asked with respect to this case is whether public interest justifies denying an injunction, since the work at issue is one of the most important archeological texts.

Another type of case that raises the question of the public interest is the preparation of derivative works. With respect to derivative works, the public's interest is twofold: first, the public may

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W. Bell, *Fixing Copyright: 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).

146 *See* sources cited *supra* note 2. *See* also Lunney, *supra* note 10.

147 Ashdown v. Telegraph Grp. Ltd. [2001] EWCA Civ 1142, [2002] Q.B. 546 [Eng.].

148 CA 2790/93, 2811/93 Eisenman v. Qimron (*Dead Sea Scrolls*), 54(3) PD 817 [1998] (Isr).

149 It should be noted that the Court found an infringement of the moral right of attribution, and therefore refused to apply the fair dealing doctrine in the case. *See* CA 2790/93, 2811/93 Eisenman v. Qimron (*Dead Sea Scrolls*), 54(3) PD 817, 838 [1998] (Isr).

have a special interest in accessing and using a derivative work which contains a significant creative addition to the underlying work. This was the case in *Stewart v. Abend*,[150] which dealt with an Alfred Hitchcock film that was based on a book. After the rights in the book reverted to the initial owner (as a result of the application of the reversal of right doctrine),[151] the question presented was how to treat the permission to create a derivative work that was granted *prior* to the reversion of the right, especially as the investment in the derivative work was immense and the film in question contained a significant creative addition to the underlying book.[152] The Supreme Court affirmed the lower court's denial of an injunction, which was based, *inter alia*, on the public's interest in having access to an important derivative work.[153]

The second public interest concerning derivative works stems from the need to balance the interest of first generation authors in retaining control over their work with those of subsequent authors in using existing works as raw material for creation of new works. This balance lies at the heart of the human creative endeavor.[154] Therefore, in special cases in which a significant derivative work is produced without the permission of the owner of the underlying work, it may be justified to deny injunctive relief when, for example, the owner of the original work cannot be located.[155] In economic terms, denying injunctive relief in such cases is justified to avoid over-deterrence of second-generation creators, and to encourage an optimal level of creativity.[156] Similar thinking lies at the root of the current initiative to regulate the use of "orphan works"; the public has an interest in its use, and it is unreasonable to prevent creation of a derivative work merely because there is always the possibility that in the future someone may be able to prove ownership of the underlying orphan work.[157] At the same time, appropriate monetary compensation for the owner of the orphan work, should he or she be identified at a later time, should

150 495 U.S. 207, 207 (1990).
151 *Id.* at 211 ("In this case the author of a pre-existing work agreed to assign the rights in his renewal copyright term to the owner of a derivative work, but died before the commencement of the renewal period. The question presented is whether the owner of the derivative work infringed the rights of the successor owner of the pre-existing work by continued distribution and publication of the derivative work during the renewal term of the pre-existing work.").
152 *Id.* at 216.
153 *Id.*; *see* Abend v. MCA, Inc., 863 F.2d 1465, 1479 (9th Cir. 1988).
154 Creative activity is always based on pre-existing material. *See* Zechariah Chafee, Jr., *Reflections on the Law of Copyright: I*, 45 COLUM L. REV. 504, 511 (1945).
155 *See* Geller, *supra* note 22, at 61-65; Goldstein, *supra* note 22, at 237; Leval, *supra* note 11, at 1130- 135.
156 See Polinsky & Shavell, *supra* note 32, at 873.
157 *See* UNITED STATES COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS, A REPORT OF THE REGISTER OF COPYRIGHT 1-5 (2006), *available at* http://www.copyright.gov/orphan/orphan-report.pdf.

be provided.[158]

4. The Conduct of the Parties and Equitable Estoppel

The conduct of the parties and their prior relations are another consideration that should be taken into account for the purpose of determining copyright remedies. As injunctions are a form of equitable relief, and, as such, are aimed at promoting justice,[159] subjective factors such as the conduct of the plaintiff and defendant and the prior relations between them ought to be taken into account.

Introducing subjective criteria into copyright law raises again the question of the proprietary nature of the copyright. One of the fundamental reasons for criticizing the analogy between copyright law and other property laws, such as land law, is the inapplicability of a strict liability regime to the copyright law goal of promoting progress.[160] Strict liability may lead to over-deterrence, which would have a negative effect on the balance between incentives and access.[161] Various proposals have been suggested that would shift copyright law away from a strict liability regime, for instance, by adopting a negligence tort model,[162] or by adding a foreseeability factor to liability.[163] Introducing subjective factors into judicial determinations regarding injunctive remedies differs from these other proposals since it takes into account considerations that traditional equitable remedies have also factored into their analysis. The best example is the "clean hands rule,"[164] which examines the plaintiff's behavior. Another example is the equitable estoppel rule.[165]

Equitable estoppel is a well-established common law doctrine, according to which:

> where one by his words or conduct willfully causes another to believe the existence of a certain state of things and induces him to act on that belief, so as to alter his own previous position, the former is concluded from averring against the latter a different state of things as existing at the same time.[166]

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158 *Id.* at 11-12.
159 *See* T. Leigh Anenson, *The Triumph of Equity: Equitable Estoppel in Modern Litigation*, 27 REV. OF LITIG. 377, 388 (2008).
160 *See* Avihay Dorfman & Assaf Jacob, *Copyright as Tort*, THEORETICAL INQUIRIES IN LAW, (May 3, 2010), *available at* http://ssrn.com/abstract=1599440.
161 *See* Ciolino & Donelon, *supra* note 29, at 365-66.
162 *See* Wendy J. Gordon, *Harmless Use: Gleaning from Fields of Copyrighted Works*, 77 FORDHAM L. REV. 2411, 2414-435 (2009) [hereinafter Gordon, *Harmless Use*].
163 *See* Bohannan, *supra* note 29; *see also* Balganesh, *Foreseeability*, *supra* note 95.
164 *See* sources cited *supra* note 124.
165 For the equitable estoppel rule in copyright law, see NIMMER & NIMMER, *supra* note 25, § 13.07.
166 Pickard v. Sears, (1837) 112 Eng. Rep. 179, 182. This case is regarded, both in England and in the United States as the leading case at law on the subject of equitable estop-

The bad conduct of parties is an important consideration in the judicial settlement of disputes, and the basic principles underlying equity are ethics and morality.[167] Equitable estoppel is a doctrine which vests courts with full discretion to fulfill the goals of ethics and morality in resolving the legal disputes before them.[168] Factors such as the length of time the infringement took place without a response by the plaintiff who had knowledge of the infringement, and the defendant's reasonable reliance on such conduct, are typical equitable considerations for the denial of an injunction.[169] The potential role of the equitable estoppel rule in reconciling copyright tensions is considerable.[170] The best example is with respect to orphan works. The concern is that since the copyright holders of orphan works are unknown, it is impossible to obtain permission to use the works, thus, users will either avoid using them or they will do so at some risk.[171] By applying the doctrine of equitable estoppel to cases where the owner of an orphan work ultimately makes himself known, a court could grant a monetary remedy and deny an injunction on the grounds that the defendant acted reasonably in relying on the absence of the owner. Furthermore, no new legislation would be required, as judicial discretion to apply equitable estoppel already exists.[172]

B. *Monetary Relief*

The monetary element of remedies is comprised of several components, one is aimed at compensating the plaintiff for demonstrable harm caused by the infringing act.[173] Unlike contract law, where the goal is to place the plaintiff in the same position

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pel. *See* Anenson, *supra* note 159, at 384-87 n.34.

167 *See* Anenson, *supra* note 159, at 388.

168 *Id.*

169 *Id.*

170 However, equitable estoppel as a reconciliation tool in copyright is used sparingly. *See* NIMMER & NIMMER, *supra* note 25, § 13.07.

171 *See* REPORT OF ORPHAN WORKS, *supra* note 157, at 1-5.

172 The U.S. Copyright Office explained why it is so important to solve the problem of orphan works through legislation in order to secure good faith use of such works:

> Based on the recommendation of my office, as published in our 2006 *Report on Orphan Works*, the legislation would allow good-faith users of copyrighted content to move forward in cases where they wish to license a use but cannot locate the copyright owner after a diligent search. . . . Some critics believe that the legislation is unfair because it will deprive copyright owners of injunctive relief, statutory damages, and actual damages. I do not agree. First, all of these remedies will remain available (to the extent they apply in the first place) if the copyright owner exists and is findable. Second, the legislation will not limit injunctive relief, except in instances where the user has invested significant new authorship and, in doing so, has relied in good faith on the absence of the owner.

Marybeth Peters, *The Importance of Orphan Works Legislation*, UNITED STATES COPYRIGHT OFFICE (Sept. 25, 2008), http://www.copyright.gov/orphan. These conditions, clearly, may be employed currently by any court through the equitable estoppel rule.

173 PATRY, *supra* note 126, § 22:100.

they would have been in *had the action question not occurred*,[174] in copyright, actual damages consist of compensation for losses suffered by the plaintiff *as a result* of the infringement.[175] Another component of the monetary element of remedies is the desire to grant the plaintiff the defendant's profits that are attributable to the infringement and that are not covered by actual damages.[176] This goal is similar to restitution in nature, and it is designed to prevent unjust enrichment by the defendant.[177] A third component is statutory damages, elective in nature, replacing actual damages and profits in cases where the plaintiff is unable (or not inclined) to prove *actual* injury. Courts thus have discretion to grant damages with no evidence of injury, based on various policy considerations.[178] Courts may adjust the amount of the statutory damages to account for the infringer's culpability. Consequently, courts may order a willful infringer to pay as much as $100,000, and an innocent infringer as little as $200.[179]

Adjusting the monetary remedy to the circumstances of the case involves considerable judicial discretion. Though the final decision is based on a mathematical calculation, the assumptions leading to the calculation are far from being mathematically precise. Copyright lawyers are familiar with the notion that the damages stage of a copyright case is determined on the basis of factual assumptions, the judge's personal impression of the case, and various (necessarily imprecise) estimations.[180] A possible reason for the fact that case law on how to calculate damages in copyright law is not developed, at least not as compared to patent law, is the availability of statutory damages.[181] The calculation of profits also involves considerable discretionary decisions, including the determination of which profits are attributable to the infringed work and which are attributable to the defendant's independent endeavors. Finally, statutory damages, by their very nature, involve

174 PATRY, *supra* note 126, § 22:100.
175 17 U.S.C. § 504 (b) (1976) (stating that the "copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement. . . .").
176 *Id.* (stating that "the copyright owner is entitled to recover any profits that are attributable to the infringement and are not taken into account in computing the actual damages").
177 PATRY, *supra* note 126, § 22:100; Dane S. Ciolino, *Reconsidering Restitution in Copyright*, 48 EMORY L.J. 1, 4-5 (1999).
178 17 U.S.C. § 504 (c) (2010).
179 *See id.* § 504 (c) (2); NIMMER & NIMMER, *supra* note 25, § 14.04[B].
180 *See* Daralyn J. Durie & Mark A. Lemley, *Intellectual Property Remedies: A Structured Approach to Calculating Reasonable Royalties*, 14 LEWIS & CLARK L. REV. 627, 628 (2010) (providing a similar analysis with respect to patent cases); *see also* ROGER D. BLAIR & THOMAS F. COTTER, INTELLECTUAL PROPERTY, ECONOMIC AND LEGAL DIMENSIONS OF RIGHTS AND REMEDIES 208 (2005). By the same token, Omri Ben-Shahar has observed that the determination whether the plaintiff is entitled to contract remedy or infringement remedy is almost arbitrary and devoid of normative foundations. *See* Ben-Shahar, *supra* note 79, at 5.
181 *See* BLAIR & COTTER, *supra* note 180.

judicial discretion since they reflect a pure "legal price" of the infringement without reference to any actual economic losses or profits. The question therefore, is whether a court can and should grant statutory damages on a theory similar to punitive damages, since the statutory damages represent a purely "legal price" and can be granted when arguably no real harm occurred at all; and whether such a policy would advance the goals of copyright law.[182] Recent scholarly writing has raised the concern that large statutory damages would over-deter potential users, and thus have a chilling effect.[183] Since the monetary remedy is subject to court discretion, it can be softened as well, so as to reduce the chilling effect. In a scheme of reduced remedies, punitive damages would be out of place. By contrast, other considerations, such as the assessment of actual harm,[184] the parties' behavior[185] and unique market characteristics[186] would be taken into account in granting monetary relief under such a system.

One obstacle to implementing a system of judicial discretion with respect to monetary relief may be that the parties are entitled to a jury decision on damages.[187] However, since matters of law are decided by the judge,[188] the judge is able to instruct the jury as to which factors should be taken into account in computing the plaintiff's damages.[189] Therefore, there is room, for the jury, instead of the judge, to employ its discretion and to tailor the monetary remedy to reflect the economic realities of the copyright dispute.[190] Furthermore, it should be noted that even in a jury trial, it is the judge who grants equitable relief such as costs, fees, injunc-

182 *See* Samuelson & Wheatland, *supra* note 78, at 472-473, 480-491; Morrissey, *supra* note 78, at 3062- 3063.
183 *See* sources cited *supra* note 79; *see also* Polinsky & Shavell, *supra* note 32, at 873.
184 Wendy J. Gordon, Symposium, *When Worlds Collide: Intellectual Property at the Interface between Systems of Knowledge Creation, Keynote Address, Harmless Use: Gleaning From Fields of Copyrighted Works*, 77 FORDHAM L. REV. 2411, 2418, 2429 (2009) [hereinafter Gordon, *When Worlds Collide*].
185 *Id.* at 2432 ("[I]f the defendant is making a deliberate use, particularly one that involves much forethought and organization, there may be a good case for allowing the copyright owner to sue even for harmless use of her work. After such a lawsuit, if damages are allocated appropriately, both parties should be left benefited - better off than they would have been had the other's actions not occurred.").
186 *Id.* ("[I]n the artistic context, where so much depends on 'following one's nose' and spontaneity, and where the boundaries of prior creators' claims are so indistinct, bargaining can be destructive. This is a kind of market failure insufficiently recognized. Enforcing the plaintiff's rights too strongly may not result in bargaining, but in stalemate.").
187 NIMMER & NIMMER, *supra* note 25, §§ 12.10, 14.02.
188 NIMMER & NIMMER, *supra* note 25, §§ 12.10 [B].
189 *See, e.g.*, PAR Microsystems, Inc., v. Pinnacle Dev. Corp., 995 F. Supp. 655, 703 (1997) (instructing the jury to deduct "from the gross amount of lost sales, any increase in costs (including overhead) that PAR would have incurred if such sales had in fact been made," as well as to consider the "causal connection between the copyright infringement of the defendant and some loss of anticipated profits).
190 However, "the jury need not specify its method of computing damages." *See* NIMMER & NIMMER, *supra* note 25, § 14.02 n.5 (citing Brewer v. Hustler Magazine, Inc., 749 F.2d 527, 529 (9th Cir. 1984)).

tions, seizure, and all other matters except for monetary damages.[191]

A thorough analysis of all possible ways for softening the monetary relief through different ways of calculating the award, to the extent that it is possible, is beyond the scope of this article. In the following parts, I will present two illustrative examples of possible ways to soften the calculation. Since the need to limit the scope of statutory damages and to refrain from imposing punitive damages has already been discussed in scholarly writing,[192] I shall not refer to it here, despite its importance. Instead, I shall focus on two less-frequently discussed topics: the calculation of hypothetical retroactive license fees and apportionment of profits.

1. Actual Damages and Hypothetical License Fees

When the court decides to grant actual damages in a case of copyright infringement, the question is whether the court may grant the estimated royalty fee that would have been paid by the user if there had been a contractual agreement between the parties. In other words, the question is whether a court can calculate damages based on a hypothetical contractual royalty arrangement that is established retroactively. If the answer is yes, then the monetary relief would be designed in a manner that reduces the chilling effect. Since hypothetical license fees may be lower than actual damages,[193] the risk in using a work without permission in uncertain cases, such as potential fair uses, would be significantly reduced. "When parties negotiate a license to use a copyright[ed] work, they . . . are bargaining in the context of a free and competitive market where fair market values can be . . . approximated by reference to similar licenses for analogous uses."[194] But when parties negotiate a settlement agreement, they are typically bargaining in light of their "uncertainty regarding the . . . amount of damages and profits that a jury might award," the statutory damages that a judge might assess, and the litigation costs.[195] If there was greater certainty that the damages that would be granted by a court would be comparable to a hypothetical license fee, and reduced monetary damages awarded by courts became the norm at

191 NIMMER & NIMMER, *supra* note 25, § 12.10.
192 *See supra* note 79.
193 *See* Ben-Shahar, *supra* note 79, at 12; *see also* Bandag Inc. v. Gerrard Tire Co. 704 F.2d 1578, 1583 (Fed. Cir. 1983) (describing a reasonable royalty as "merely the floor below which damages shall not fall"). This perception is reflected in the U.S. Patent Act, which reads: "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer. . . ." 35 U.S.C. § 284 (2000).
194 Henry L. Self III, *Settlement of Infringement Claims by Copyright Co-Owners*, 13 TEX. INTELL. PROP. L.J. 65, 74 (2004).
195 *Id.*

least in fair use cases, then eventually such reduced damages would lead to settlement agreements with smaller dollar values.[196] In other words, if the *reduced* awarding of monetary damages by courts became the norm, at least in fair use cases, then the bargaining position of the potential user or the alleged infringer *vis-a-vis* the copyright owner would be significantly strengthened since he or she would not be as afraid of the consequences of a trial. As a result, the chilling effect would be reduced. The advantage of such method is of great importance especially in cases focused on the applicability of the fair use doctrine, since would encourage potential users to take the risk of using a copyrighted work and therefore will accomplish better the fair use doctrine underlying goals to allow socially justified uses.[197]

However there are some theoretical and practical obstacles to calculating damages to reflect a retroactive hypothetical license fee. The theoretical obstacle relates to the role of courts in promoting justice. The basic argument is that if a court is satisfied with granting retroactively calculated hypothetical royalties and does not impose other penalties on the infringer then it is in effect encouraging the violation of copyright laws instead of encouraging people to seek use permits in advance. In other words, the fear is that such practice would encourage potential users not to seek for permission, since in the worst case scenario that they would be challenged by the copyright owner they would have to pay the fee they would have paid initially had they asked for permission. Courts, therefore, should consider societal goals, such as observance of laws and deterrence, and in light of those goals, retroactive hypothetical license fees may be perceived as undermining deterrence and observance of laws. Indeed, courts have used such reasoning, in the context of statutory damages, according to which the defendant "cannot expect to pay the same price in damages as it might have paid after freely negotiated bargaining, or there would be no reason scrupulously to obey the copyright law."[198] It should be noted, though, that there is no statutory guideline for this approach in the context of actual damages.[199] The way to overcome this theoretical difficulty is to stress the difference between copyright and other proprietary rights. A copyrighted work is an intangible asset, therefore it is not always clear what its boundaries are,[200] nor to whom it belongs.[201] This differ-

196 *See* POSNER, *supra* note 34, at 597-98.
197 For the goals of the fair use doctrine, see William F. Patry, *Patry On Fair Use*, § 1:2 (2010).
198 See NIMMER & NIMMER, *supra* note 25, § 14.02 [A][1] (quoting Iowa State Univ. Research Found., Inc. v. Am. Broad. Cos., 475 F. Supp. 78, 83 (S.D.N.Y. 1979)).
199 *Id.* § 14.02 [A][1].
200 For example, ideas are not protected by copyright but it is hard to determine which

ence should be taken in account while assessing the harm done by failing to acquire a license in advance. In copyright law, unlike land, for example, there is a greater likelihood that infringement will occur by mistake, and if the main consideration against retroactive hypothetical licenses stems from the goal of encouraging observance of the law, then the intentions of the defendant are relevant for overcoming the objection to granting royalties retroactively. In addition, courts should take into consideration the nature of the infringed right at issue. Copyrighted works contain information and speech, the control over which has significant influence over the free flow of information and ideas.[202] Moreover, copyright law was designed to promote progress by incentivizing the preparation of works,[203] which in many cases are created through the use of pre-existing copyrighted works. Therefore, the need to counteract the chilling effect and encourage permitted use of copyrighted works is of great importance. Thus, in promoting policy goals, aside from the promotion of the rule of law, the consequences for society of excessive control over copyrighted works should be taken into account. Courts should not ignore the risks of over-deterrence and of the chilling effect created by large damages awards that reflect the additional cost of not acquiring a license in advance.

As already noted, in many cases damage calculation tracking *after* the lost profits caused by an unauthorized use of a copyrighted work is highly speculative, and sometimes is impossible to be determined accurately.[204] In the realm of patent law, in cases wherein the patent owner cannot prove a particular amount of lost profits, the Patent Act authorizes an award of "a reasonable royalty for the use made of the invention by the infringer."[205] The logic guiding courts in granting reasonable royalties for unauthorized patent use is a desire to reflect the *reasonable expectations* of

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parts of the work should be regarded as non-protected ideas. *See* 17 U.S.C. §101 (2010). Therefore the boundaries of the protected intangible work are not clear.

201 *See* Dorfman & Jacob, *supra* note 160 (stressing that different rules should apply to copyrighted works and tangible assets, due to the lack of the basic element of clear "declaration" of ownership). *See also* Gordon, *When Worlds Collide*, *supra* note 184.

202 *See* Harper & Row Publishers, Inc., v. Nation Enter., 471 U.S. 539, 556 (1985); Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283 (1996).

203 The purpose of copyright law as defined by the U.S. Constitution is to "promote the progress of science and the useful arts." U.S. Const. art. I, § 8, cl. 8.

204 *See supra* text accompanying notes 180-181. For the same problems in the patent context, Mark A. Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 WM. & MARY L. REV. 655, 657-61 (2009) [hereinafter Lemley, *Lost Profits*].

205 35 U.S.C. § 284. *See also* BLAIR & COTTER, *supra* note 180, at 228; Thomas F. Cotter, *Four Principles for Calculating Reasonable Royalties in Patent Infringement Litigation*, 27 SANTA CLARA COMPUTER & HIGH TECH. L.J. 1, 4 (2011), *available at* http://ssrn.com/abstract=1736174. ("When the patentee does not or cannot prove any lost profits, however, an award of reasonable royalties is said to serve as a 'floor' or minimum compensation for the defendant's unauthorized use.").

both parties: the expectations of the owner to earn profits from his or her invention and the expectations of the infringer to earn from the use of the invention.[206] These expectations are being assessed from a retroactive point of view before the infringement (*ex-ante*), and should include the legal uncertainties of both parties.[207] Though such reasonable royalties should be sufficient to deter infringement, courts are sometimes concerned that it does not reflect a "fair play" in an intuitive sense,[208] and therefore grant excessive royalties.[209] But this intuitive sense of justice should be overcome, since it should be borne in mind that reasonable royalties are *a substitute* for the patent owner's lost profits, which he cannot prove accurately.[210] Thus, there is no logic in granting royalties in excess of the profits that the infringer could have expected to earn without explaining the economic logic behind this calculation.[211] Introducing compensatory factors from lost profits into the reasonable royalty context without importing strict elements of proof, has the potential to turn the reasonable royalty into a windfall that overcompensates owners.[212] Cotter explained the drawbacks of such intuitive tendency in terms of overall policy:

> [I]f courts systematically *overrewarded* patentees, in comparison with what patentees would have earned from exploiting their patents in the absence of infringement, they in effect would be increasing the returns on patentees' investments in the inventive process beyond what the market for patented technology otherwise would dictate. Though in theory this may increase some patentees' incentives to invent, it also necessarily raises the social costs of the patent system, including monopoly costs (if any) and (perhaps more likely) the costs of investing in, and marketing, follow-up improvements. In addition, inflated damages awards may threaten to overdeter would-be users from lawfully designing around in ways that come close to, but do not,

206 *See* BLAIR & COTTER, *supra* note 180, at 228-30; Cotter, *supra* note 205, at 10-12 ("[A]s a first approximation the law of patent damages should attempt simply to restore the status quo ante—that is, to make the patentee neither worse nor better off than it would have been, but for the infringement.").

207 *See* BLAIR & COTTER, *supra* note 180, at 230. *But see* Cotter, *supra* note 205, at 24 ("[C]ourts should continue to exclude from consideration the parties' ex ante probability estimates of patent validity, enforceability, and infringement because (contrary to intuition) applying these factors ex post would introduce a double discounting problem.").

208 *See* BLAIR & COTTER, *supra* note 180, at 231.

209 *See* Lemley, *Lost Profits*, *supra* note 204, at 667:

> [I]n practice, the reasonable royalty approach systematically overcompensates patent owners in component industries. Indeed the situation has gotten so bad that some patentees who can prove lost profits elect instead to seek a 'reasonable' royalty that is far in excess both of what the parties would have negotiated and of the actual losses the patentee suffered.

(citations omitted).

210 *See* BLAIR & COTTER, *supra* note 180, at 231.

211 *See* BLAIR & COTTER, *supra* note 180, at 232.

212 *See* Lemley, *Lost Profits, supra* note 204, at 667-68.

> constitute infringement; the possibility of obtaining such awards also could encourage patentees to lie in wait and sue, rather than to negotiate in good faith upfront.[213]

This reasoning is equally relevant to copyright reality. Therefore, the rule allowing a court to grant hypothetical reasonable royalties, with no additional excessive payments, ought to apply to copyright law, as well.

Along with this policy ground for overcoming the theoretical difficulty concerning retroactive hypothetical license fee, it should be borne in mind that there is ground for an existing practice according to which in appropriate copyright cases the "plaintiff's actual damages may take the form of lost license fees".[214] Such cases could be when the proven damage is the failure to receive a reasonable license fee.[215] In such cases, the award is determined on speculative basis, because no actual license was granted, therefore the courts grant a license fee which "must match as reasonably as possible the type of use engaged in by defendant" in order not to over-compensate or under-compensate the copyright owner.[216] In *Davis v. Gap, Inc.*,[217] Judge Laval stressed that there are commentators who support the possibility to grant lost licensing fees as actual damage, such as Goldstein, while other reject it, such as Nimmer.[218] Finally, Judge Leval concluded in favor, holding that "[h]onest users can infringe by reason of oversight or good faith mistake. The infringer may have mistakenly believed in good faith that the work was in the public domain, that his licensor was duly licensed, or that his use was protected by fair use"[219], therefore there is no reason not to conclude that the Copyright Act "permits a copyright owner to recover actual damages, in appropriate circumstances, for the fair market value of a license covering the defendant's infringing use".[220]A typical example of cases in which the proven damage is the failure to receive a reasonable license fee is when the copyrighted works are sold as licenses and not as commodities.[221] Nowadays, in which many works are sold in a digital format and therefore are using the licensing method in transactions,[222] the grant of hypothetical lost license fees as the proven

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213 *See* Cotter, *supra* note 205, at 10.
214 PATRY, *supra* note 126, § 22:111; Davis v. Gap, Inc., 246 F.3d 152, 167 (2d Cir. 2001) ("The decisions of this and other courts support the view that the owner's actual damages may include in appropriate cases the reasonable license fee on which a willing buyer and a willing seller would have agreed for the use taken by the infringer").
215 *Davis*, 246 F.3d at 167.
216 PATRY, *supra* note 126, § 22:111.
217 *Davis*, 246 F.3d 152.
218 *Id.* at 169-72. *See also* NIMMER & NIMMER, *supra* note 25, § 14.02 [B].
219 *Davis*, 246 F.3d at 172.
220 *Id.*
221 PATRY, *supra* note 126, § 22:111.
222 For the digital sale practice of works and its implications see *supra* notes 54 and ac-

damage may become common, thus with no theoretical implications. However, since lost license fees may be granted in cases concerning non-digital work as well,[223] the theoretical difficulty should not be viewed as a fatal impediment any more.

The possible practical obstacle in granting retroactive lost license fees relates to the difficulty of determining this fee, since it is assessed out of the context of a free market negotiation process. These kinds of hypothetical fees have been described (in relation to patents) as "an educated guess–an average" since they reflect the parties' "relative bargaining power [and] the expected value" they place on the license as opposed to its "true" value.[224] It is also true, though that the determination of other types of actual damages, (for example, to compensate for harm to market value), may often be quite difficult as well.[225] Because the actual damages inquiry centers on "what sales probably would have been made without the infringement," it is speculative by nature.[226] However, as already mentioned, some adjudication with respect to retroactive licensing fees in the copyright realm do exists, in cases that such awards are acknowledged as actual damage.[227] These court decisions use different ways to overcome the problems in assessing hypothetical contractual royalties.[228] Moreover, there is some case law addressing the evaluation of hypothetical retroactive royalties in the analogous patents context,[229] which could be used in the copyright context as well.[230]Therefore, though there is a practical difficulty in evaluating license fees retroactively, this difficulty should not be overestimated, and by overcoming such an obstacle this remedy has the potential to function as an important means

companying text.

223 For example, in the case of *Davis v. Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001), jewelry designed by the plaintiff that was included without permission in an advertisement made by the defendant was at stake. Judge Leval enumerates in this decision other cases concerning non-digital works in which lost license fees were granted as well. *See id.* at 167-69.

224 Ben-Shahar, *supra* note 79, at 11.

225 NIMMER & NIMMER, *supra* note 25, § 14.02 [A][1].

226 PATRY, *supra* note 126, § 22:101 (internal quotation marks omitted).

227 See *supra* notes 214 - 223 and accompanying text.

228 See PATRY, *supra* note 126, § 22:111.

229 *E.g.*, Georgia-Pacific Corp. v. United States Plywood Corp., 318 F. Supp 1116, 1120 (S.D.N.Y. 1970) *modified* 446 F.2d 295 (2d Cir. 1971) (enumerating fifteen factors to be taken into account when assessing reasonable royalties). *See also* BLAIR & COTTER, *supra* note 180, at 228-29; Neal E. Solomon, *What is a Reasonable Royalty? A Comparative Assessment of Patent Damages Methodologies* 7 (Working Paper Series, June 11, 2010), *available at* http://ssrn.com/abstract=1623982 (explaining that there are two basic methods for calculating royalties retroactively in the patent context: one that is based on the traditional practice of the industry or the patent holder, and another based on "a hypothetical negotiation between a willing buyer and willing seller"). *Cf.* Durie & Lemley, *supra* note 180, at 629-35 (arguing that the calculation of royalties in patent cases in not always reasonable); *see also* Lemley, *Lost Profits*, *supra* note 204; Cotter, *supra* note 205.

230 Some, if not all, of the fifteen factors to be taken into account when assessing reasonable royalties enumerated in the leading patent case of *Georgia- Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp 1116, 1120 (S.D.N.Y. 1970) *modified* 446 F.2d 295 (2d Cir. 1971) are applicable to copyright cases.

for softening the results of copyright infringement for the infringer, thus promoting a better balance of the interests that underlie copyright law.[231]

2. Apportionment of Profits

The remedy of awarding the infringer's profits is very popular in copyright cases.[232] Proving the exact losses and the harm caused by the infringing act is not always easy, but it is relatively easy to determine the defendant's profits attributable to the infringement.[233] However, entitling the plaintiff to *all* the defendant's profits is problematic. As the Supreme Court held in *Sheldon v. MGM*,[234] the purpose of awarding the defendant's profits to the plaintiff is "to provide just compensation for the wrong, not to impose a penalty by giving to the copyright proprietor profits which are not attributable to infringement."[235] To the extent that the defendant's profits are greater than the plaintiff's harm, the plaintiff will benefit from a windfall, and the excess amount might represent profits the plaintiff would not have been able to make even if he had used his copyrighted work in the same way as the defendant.[236] For this reason, the Copyright Act requires, "[I]n establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work."[237] However, except to allocating the burdens of proof on the infringer to prove any deductible elements from profits, the basic issue concerning how these awards are calculated is not determined by the Act.[238] Therefore, courts should apply their discretion in determining the scope of restitution. A common problematic situation is one in which the copyrighted work has been transformed in some way (e.g., into a derivative work), and it is therefore impossible to determine with any degree of accuracy exactly which profits are attributable to the copyrighted work and which to the additions or transformations.[239] In such

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231 For the same insight with respect to patents, see Solomon, *supra* note 229, at 6.
232 PATRY, *supra* note 126, § 22:100.
233 *Id.*
234 Sheldon v. MGM Pictures Corp., 309 U.S. 390 (1940).
235 *Id.* at 399.
236 PATRY, *supra* note 126, § 22:100.
237 17 U.S.C. § 504 (b) (2010). Accordingly, one court rejected basing its calculation of the damages award on the "fruit of the poisonous tree" doctrine that would have allowed plaintiff to recover profits from the sale of later works of the defendant which did not infringe the plaintiff's copyright. *See* Liu v. Price Waterhouse LLP, No. 97CV3093, 2000 WL 1644585, at *2 (N.D. Ill. 2000); PATRY, *supra* note 126, § 22:100.
238 *See* Stephen E. Margolis, *The Profits of Infringement: Richard Posner v. Learned Hand*, 22 BERKELEY TECH. L.J. 1521, 1522 (2007).
239 *See* NIMMER & NIMMER, *supra* note 25, § 14.03 [D] ("One of the most difficult prob-

cases, a form of apportionment of profits should be undertaken, with the amount of profits awarded to the plaintiff taking into consideration the independent value to consumers derived from the non-infringing elements of the defendant's work.[240]

The way such apportionment is conducted by a court may have a great impact on all behavioral factors discussed in this article: form the initial incentive to engage in the creative process of preparing derivative works, to the incentive to litigate copyright cases instead of settling privately and the end result in a private settlement. Secondary users of works may be convinced that they have used only non-protected ideas of an underlying work, or that there is no substantial similarity between the part taken from a work and that which was used in the derivative work, or that the highly transformative character of the use will tilt the balance in favor of a finding of fair use. But, a court may see it differently. Nevertheless, such an infringement should be treated differently from a mere pirated duplication due to the aim of copyright in furthering the accessibility of works.[241] Apportionment is not a matter of precise measurement and thus is not determined with an accurate mathematical calculation.[242] If courts fine tune the process of apportionment, and take into account the uncertainties with respect to the question of whether the defendant's conduct was a clear-cut infringement, then the final court outcome will encourage litigation or reduce the payment agreed in private settlement, both limiting the chilling effect.[243] The adjudication according to which any ambiguities should be resolved in favor of the copyright owner[244] therefore should be replaced by a more sensi-

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lems in the computation of profits for which the defendant is liable under Section 504(b) arises when the infringing work inextricably intermingles noninfringing material with the plaintiff's protectible material. For example, a motion picture may be based upon the plaintiff's story and hence constitute an infringing work. Nevertheless a substantial portion of the revenue derived from the picture may be due to noninfringing elements such as the talent and popularity of the actors, and the artistic and technical contributions made by the director, the producer and many others.").

240 PATRY, *supra* note 126, § 22:139. *See also* Rogers v. Koons, 960 F.2d 301, 313 (1992).

241 Judge Hand made a distinction in *Sheldon v. MGM Pictures Corp.* between innocent and willful infringers when deducting costs out of profits. *See Sheldon*, 309 U.S. at 396. However, the 1976 Copyright Act does not make such a distinction, and allows willful infringers to equally enjoy the right to deduct proven amounts out of the profits. *See* 17 U.S.C. § 504 (b) (1976); *see also* Kenneth E. Burdon, *Accounting for Profits in a Copyright Infringement Action: A Restitutionary Perspective*, 87 B.U. L. REV. 255, 274 (2007).

242 *See* PATRY, *supra* note 126, § 22:145 nn.7, 8 (citing ABKCO Music, Inc. v. Harrisongs Music, Ltd., 508 F. Supp. 798, 801 (S.D.N.Y. 1981); Frank Music Corp. v. Metro-Goldwyn-Mayer Inc., 886 F.2d 1545, 1549 (9th Cir. 1989)); *see also* PATRY, *supra* note 126, § 22:146 n.15 (citing Sheldon v. MGM Pictures Corp., 309 U.S. 390, 405 (1940)).

243 Restitution is regarded as an equitable claim, therefore it is typically not a punitive remedy, and it is subject to equitable considerations such as the public interest. *See* RESTATEMENT (FIRST) OF RESTITUTION, introductory note to Part I, Ch. 8, Topic 2 (1937).

244 *See* PATRY, *supra* note 126, § 22:101 n.16 (citing Davis v. Gap, Inc., 246 F.3d 152, 166 (2d Cir. 2001)); *see also* PATRY, *supra* note 126, § 22:120 n.1 (citing Andreas v. Volkswagen of Am., Inc., 336 F.3d 789, 800 (8th Cir. 2003); Infotext, Inc. v. Liberty Fin. Credit, 243 F.3d 548 (9th Cir. 2000)).

tive rule, favoring the tailoring of the appropriate remedy, and aiming to fulfill overall copyright goals, including both incentive to create and access to use such creations.[245]

IV. CONCLUSION

Copyright law was designed to achieve societal goals of promoting progress by encouraging the creation of works and by safeguarding their accessibility. However, some fundamental failures, including the chilling effect (a result of the current system), prevent optimal use of copyrighted works. Several causes combine to create the chilling effect, some of which have been discussed at length in scholarly writing, while others have not. Each such cause should be examined separately. This article has focused on two basic characteristic of copyright law which, combined, enhance the chilling effect. The first is the all-or-nothing approach adopted by courts in copyright cases, under which copyright litigation generally leads to one of two outcomes: either the plaintiff wins and is entitled to all available remedies, including injunctive and monetary relief, or else they lose and receive nothing. The second characteristic is the many uncertainties of copyright law. Many of the most basic terms and doctrines in current copyright law are governed by open standards: from the definition of the subject matter, through the scope of protection, to the definition of exceptions. Thus, great uncertainty accompanies any legal analysis of copyright law questions. This second characteristic has been widely discussed in the literature. But an effect which has received less attention is that the combination of the two characteristics creates a powerful incentive to settle copyright disputes and not to litigate. The result is that the common law mechanism which was intended to clarify the uncertainties in copyright law has failed to develop and has preserved norms that lack clarity, which eventually creates the chilling effect. Moreover, dispute settlement also raises the cost of using copyrighted works, as it creates an incentive to pay for a use of work when, legally speaking, there is no need to. This outcome is similar to another already observed phenomenon in which licenses for use of copyrighted works are acquired even when, legally speaking, are not needed, in order to avoid legal risk. Therefore, the all-or-nothing approach in copyright law has a chilling effect on the behavior of users.

The way to resolve this problem is by introducing flexible

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245 Such proposed new court-made-rule can overcome the rule codified at 17 U.S.C. § 504 (b), according to which the infringer is required to prove his or her profits attributable to factors other than the infringed work, by equitable doctrines aimed at promoting justice between the parties. For a similar argument, see Burdon, *supra* note 241, at 279-80, 286-87.

remedies, determined on case by case, which would permit courts to balance the conflicting interests inherent in copyright law, reflecting both the need to protect owners' interests and the public interest in enabling greater use of copyrighted works. In order to free courts from the either-or approach to copyright law, the theoretical debate as to the proprietary nature of copyright should be put aside, and a more pragmatic approach adopted, one that emphasizes that remedies are by their nature at the discretion of judges, and should be used to advance policy goals. Any determination of remedies should include an assessment of the parties' behavior, the nature of the work that is being used, the nature of the use, the impact on the market, etc. This article illustrates some ways by which such considerations could be developed in the framework of both granting injunctions and calculating monetary relief. Remedies also have a role in balancing the various interests involved, in cases where other doctrines that are applied by courts in the determination of an infringement, such as fair use, are not available.

This flexible approach to remedies will encourage litigation, which in turn may result in clarification of copyright standards and in greater use of works. It will also reduce the chilling effect even in the absence of the desired litigation, by both reducing the financial risk involved in using works in uncertain cases and by reducing the payments in settlement of copyright disputes, as such agreements are always affected by the potential awards that may be granted by courts.

The adoption of a flexible approach to copyright remedies is available to the judiciary. No new legislation is needed for implementation of the solution suggested above, and international law leaves the door open for this approach to develop. The time has come to take remedies seriously as a vehicle to defrost the current chilling effect.