THE FUTURE OF THE FAIR USE DOCTRINE: WILL IT SURVIVE THE INTERNET AGE

LLM RESEARCH PAPER
INTELLECTUAL PROPERTY
LAWS 535

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VICTORIA UNIVERSITY OF WELLINGTON

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This paper analyses the future of the future doctrine on the Internet. As copyright material becomes increasingly digitised, tensions have arisen between those controlling and using such material. Although digital technology provides significant benefits in disseminating copyright material, the fact that digitised material may be easily reproduced or manipulated, and then further disseminated by the user, has led to a general perception that increased copyright protection is necessary to provide works with adequate protection when transmitted in a digital form, and to provide sufficient incentive for new digital works to be created. As a consequence, current efforts at revising copyright laws have focused on ways by which protection of copyright works can be strengthened. This paper criticises the US approach to reforming the fair use doctrine, considering both the White Paper and the Digital Millennium Copyright Act 1998. The market failure justification that the US approach favours ignores other more important justifications of fair use. Furthermore the White Paper's application of market failure to the Internet is severely flawed. This paper concludes that fair use has a fundamental role to play on the Internet, yet it is a role that is threatened by new technologies and proposed legislation.

The paper is 1530 words in length (excluding contents page and footnotes).
I am not an advocate for frequent changes in laws and constitutions. But laws and institutions must go hand and hand with the progress of the human mind. As that becomes more developed, more enlightened, as new discoveries are made, new truths discovered and manners and opinions change, with the change of circumstances, institutions must advance also to keep pace with the times. We might as well require a man to wear still the coat which fitted him when a boy. . . .

Thomas Jefferson

Although Thomas Jefferson could not have foreseen the advent of the Internet revolution, his view that the law should not lag behind technology is a hotly debated topic today. Since copyright law was born following William Caxton's invention of the printing press it has required merely minor alterations to its scope. With the advent of internet technology, as Thomas Jefferson might have said, the "coat" of copyright law has been stretched to breaking point.

As copyright material becomes increasingly digitised, tensions have arisen between those controlling and using such material. Although digital technology provides significant benefits in disseminating copyright material, the fact that digitised material may be easily reproduced or manipulated, and then further disseminated by the user,


has led to a general perception in countries with strong copyright based industries\(^3\) that increased copyright protection is necessary to provide works with adequate protection when transmitted in a digital form, and to provide sufficient incentive for new digital works to be created.\(^4\) As a consequence, current efforts at revising copyright laws have focused on ways by which protection of copyright works can be strengthened.

Enhanced copyright protection may, however, come at a price to users of information. As the exclusive rights of the copyright owner become stronger, users' "rights" of free access and use of material in digital form may be diminished. Without such rights, there is a possibility of barriers being erected around information based products placing greater restrictions on the communication of ideas, with provision of material granted solely on the copyright owner's terms.

This paper examines what role fair use will play on the Internet in the future. Fair use has always been an essential part of maintaining the copyright balance between copyright holders and users. In order to determine what is the appropriate role for the fair use doctrine on the Internet it is necessary to consider the rationale for it in relation to the copyright scheme in the print world and whether such justifications will still be relevant when applied to the Internet.

\(^3\) For example, the United States of America, Germany and Australia.
II THE GOALS OF COPYRIGHT LAW

New Zealand's present system of copyright protection derives from English legislation in the 18th century. Whilst it is beyond the scope of this article to include a detailed summary of how and why English law developed a law of copyright, it is generally suggested that copyright protection was a reaction to laws that existed as tools of censorship, and thus was aimed at promoting the widespread dissemination of information.

The first policy, and arguably the purpose of the copyright system, is the promotion of knowledge. The title of the Statute of Anne, the English copyright law created in 1709 that forms the basis of the New Zealand Copyright Act 1994 ("The Act"), states that it is: "[a]n Act for the Encouragement of Learning by Vesting the Copies of Printed Books in the Authors of such Copies during the Times therein mentioned." 6

The second policy advanced by the Act is the idea of economically benefiting authors by granting them a temporary monopoly (an "exclusive right") in their writings. The limited monopoly right of copyright is the economic engine that drives the copyright system and fulfils its other policy goals. The Courts and legal commentators have perceived this monopoly as a necessary condition to fully realise the public interest in the operation and dissemination of such creative activities rather than solely as a

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4 See, for example Information Infrastructure Task Force; 1995 and Copyright Convergence Group; 1994.
5 For an excellent summary see L.R Patterson Copyright in Historical Perspective (Vanderbilt University Press, Nashville, 1968).
6 8 Anne C. 21 (1709).
The third policy promoted by the Act is ensuring public access. Under the Act, works are protected for only a "limited time." Access is still required during the limited period (i.e., the duration of the copyright) because the public needs the opportunity to gain knowledge from the uncopyrightable ideas included in the work. The creation of new works is dependent on use of existing material even during its copyright period. Otherwise, copyrighted material would not be accessible to authors of new works or to the public, and the first policy, the promotion of learning, would be frustrated.

In order to further the primary goal of copyright, the promotion of the public body of knowledge, copyright increases the body of creative works by giving authors control over their works and thus providing incentives for them to produce. The Act provides protection for several broad categories of works including literary, musical, dramatic, and audio works. Any work falling into one of the delineated categories may be granted copyright protection, provided that the subject matter is

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8 For the duration of copyright see Copyright Act 1994, s 22-25.

9 Commentators have pointed out that there is an additional secondary benefit to owner control. By selling the works, authors and publishers gain valuable feedback about consumer preferences they can then use to make rational decisions about what to create in the future. See Goldstein, Copyright's Highway (Nashville, Vanderbilt University Press, 1994), at 178-79.
"recorded in writing or otherwise."\textsuperscript{11}

The author of a work enjoys exclusive rights in his property as granted by the Act. These rights consist of the right to copy the work,\textsuperscript{12} to issue copies of the work to the public\textsuperscript{13}, to perform\textsuperscript{14}, play\textsuperscript{15} or show\textsuperscript{16} the work in public, to broadcast the work\textsuperscript{17} or to make an adaptation of the work.\textsuperscript{18} Anyone who infringes any of the above rights will be held liable, and may be subject to both civil and criminal penalties.\textsuperscript{19}

At the same time copyright law strives to maximize the public's access to those works to allow the public to benefit from the increased body of works. Much of the development of copyright law has centred on the attempt to resolve the tension between these two competing interests.\textsuperscript{20} To keep the scope of the copyright monopoly reasonable, several principles have evolved to limit copyright protection where extending it would undermine the stated policy of benefiting the public. This tension is central to the definition of copyrightable subject matter,\textsuperscript{21} the idea/expression dichotomy,\textsuperscript{22} and it dictates the limited term of rights.\textsuperscript{23} However,

\textsuperscript{10} Copyright Act 1994, s 14 (a)-(f) provides protection of original literary, dramatic, musical, or artistic works, sound recordings, films, broadcasts, cable programmes, typographical arrangements of published editions.
\textsuperscript{11} Copyright Act 1994, s 15.
\textsuperscript{12} Copyright Act 1994, s 16(a).
\textsuperscript{13} Copyright Act 1994, s 16(b).
\textsuperscript{14} Copyright Act 1994, s 16(c).
\textsuperscript{15} Copyright Act 1994, s 16(d).
\textsuperscript{16} Copyright Act 1994, s 16(e).
\textsuperscript{17} Copyright Act 1994, s 16(f).
\textsuperscript{18} Copyright Act 1994, s 16(g).
\textsuperscript{19} Copyright Act 1994, Part VI.
\textsuperscript{20} See Glynn S. Lunney, Jr., “Reexamining Copyright’s Incentives-Access Paradigm”, 49 Vand. L. Rev. 483, 48. “[D]efining copyright’s proper scope has become a matter of balancing the benefits of broader protection, in the form of increased incentive to produce such works, against its costs, in the form of lost access to such works.”;
\textsuperscript{21} Copyright protection subsists only in original works of authorship, with recording needed for some works, Copyright Act 1994 s 14 -15. Consequently, a content creator will receive protection only when the work is such that the public potentially can learn from, copy, and otherwise use that work.
\textsuperscript{22} This refers to the distinction that copyright law makes between elements of a works that are ideas, and thus are in the public domain and can be copied, as opposed to the actual expression of those ideas
most importantly, the tension between creator control and public access provides much of the justification for the fair use doctrine. In this regard the function of the fair use doctrine coincides with the dual objectives of the copyright system.

III THE DOCTRINE OF FAIR USE

Even the very earliest of English copyright cases following the enactment of the Statute of Anne recognised that there may be acceptable non-licensed uses of copyright material that do not infringe copyright. It was clearly recognised that copyright in a work did not prevent anyone else from using the work; the right was simply to prevent the work's reproduction. In *Miller v Donaldson*, Aston J stated that a purchaser of a book may "improve upon it, imitate it, translate it, oppose its sentiments: but he buys no right to publish the identical work." More specifically, English courts began to allow what became known as "fair abridgement", and a right allowing the illustration of a review with quotations. This exception evolved into the current concept of fair use.

The current fair use doctrine is a privilege that allows someone other than the copyright owner to use copyrighted material in a reasonable manner without the

by an author, which copyright protects. For example, one could copy Einstein's theory of relativity, but could not copy his expression of the theory.

23 See Copyright Act 1994, ss 22-25. The Copyright Act provides that the term of copyright should be limited. the term of copyright protection is limited to the life of the author plus 50 years. In the case of works for hire, anonymous, or pseudonymous works, the term is 75 years from first publication or 100 years from creation, whichever is shorter. After the term expires, the public has full access to use and copy these works freely. The term is meant to be long enough to induce creation, while short enough not to hinder unduly public access.

24 98 ER 201, per Aston J at 226; see also Lord Mansfield at 251

25 For example, see *Mawman v. Tegg* 2 Russell 383, per Lord Eldon.
owner's prior consent, notwithstanding the monopoly granted to the owner. Fair use is an affirmative defence that comes into play only after the plaintiff has proven a prima facie case of infringement.

In New Zealand a “fair use” must fit within one of the categories set out in Part III of the Act. The main categories are “criticism, review, and news reporting” and “research and private study.” These categories limit the scope of the defence, protecting the interests of creators, and serve to distinguish the New Zealand defence from its equivalent within the United States copyright legislation, where fair use is not restricted by categorisation.

In determining whether a use fitting under one of the categories is “fair”, the courts conduct a balancing process in which a number of variables determine whether other interests outweigh the rights of copyright owners. The court evaluates and balances the social benefit that the public derives from the unauthorized use in light of the interest in protecting the copyright owner’s exclusive control of the work. A dealing with a work for the purpose of research or private study is assessed for fairness by reference to the factors set out in section 43(3). These factors are very similar to

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26 What about exam/library fair use etc?
27 Copyright Act 1994, s 42.
28 Copyright Act 1994, s 43.
30 Whilst it may be thought that the different constitutional context in which decisions of US courts are made would cause those decisions to have less relevance to Australian law, it is nevertheless true that US and Australian copyright law share many of the same judicial antecedents and, as a consequence, decisions of US Courts require consideration. A New Zealand court, if faced with a question of fair use in relation to a literary work, would therefore need to refer to relevant decisions of the courts of the United Kingdom, New Zealand, and the United States.
those that are applied in the US to judge fair use. Five statutory factors must be considered by the Court, namely:  

(a) The purpose of the copying; and

(b) The nature of the work copied; and

(c) Whether the work could have been obtained within a reasonable time at an ordinary commercial price; and

(d) The effect of the copying on the potential market for, or value of, the work; and

(e) Where part of a work is copied, the amount and substantiality of the part copied, the amount and substantiality of the part copied taken in relation to the whole work.

The precise scope of the doctrine of fair use is unclear. In his well-known description of fair use, Lord Denning once stated, "(I)t is impossible to define what is "fair use". It must be a question of degree". The drafting of the New Zealand fair use provisions, like those in other jurisdictions, has been left broad, with little legislative guidance as to what is to be considered with respect to determining the "fairness" of a use. The breadth of the fair use provisions provides the courts with a wide discretion to shape the law in this area according to the varying factual situations of each case.

31 Copyright Act 1994, s 43(3) (a)-(e).
32 Describing section 6 of the Copyright Act 1956 (UK) “fair use for criticism or review”.
33 Hubbard v. Vosper [1972] 2 QB 84 at 94.
specific case. For example, in *University of New South Wales v Moorhouse*, Chief Justice Gibbs said: 34

The principles laid down by the Act are broadly stated, by reference to such abstract concepts as "fair use", and it is left to the courts to apply those principles after a detailed consideration of all the circumstances of a particular case.

Such a wide discretion in the law does, however, have the disadvantage of reducing certainty for the application of the law by copyright users. Such uncertainty was at least partly the reason why the Franki Committee recommended the introduction of the factors now set out in section 43(3). 35 For reasons that were not explained, these factors have only been enacted in the provision dealing with fair use for the purposes of research and study. 36 For the remaining categories of fair dealing with works, that is, a fair dealing for criticism and review or newsreporting 37 there is no such legislative guidance, and any assistance as to the circumstances when a dealing with a work for those purposes will be "fair" must be gleaned from the common law.

**IV THE EFFECT OF THE INTERNET ON THE DOCTRINE OF FAIR USE**

The technical foundation of the Internet is not important for the purposes of this paper. Instead, it is the way in which the Internet is used, or can be used, that is

34 (1975) 133 CLR 1, per Gibbs CJ at 12.
35 C. Benson "Fair Dealing in the United Kingdom", 6 EIPR 522, 530.
36 These are found in section 43 of the Act.
37 These are found in section 42 of the Act.
relevant. The Internet represents a major challenge to copyright law and the doctrine of fair use for a number of reasons.

A Ease of Duplication

The first is the ease and convenience by which material on the Internet can be duplicated. While the camera, photocopier, and videocassette recorder have all impacted copyright law over the last hundred years, no other medium allows for duplication and distribution of nearly any kind of copyrighted material. Some copyright holders argue that the Internet impairs their copyright interests by fundamentally transforming the nature and means of publication and thus making their works extremely vulnerable to Internet piracy. The decentralized nature of the Internet’s management makes it possible for any user to widely disseminate a work on the electronic network through any number of channels. Before the advent of digital technology, an average consumer was limited in her ability to widely distribute quality copies of copyrighted works. Since most copyright owners are publishers, these large businesses had little economic incentive to enforce infringement claims against individual users because of the technological limitations on the quality that they could and would desire to make. The Internet does not possess a centralized control mechanism. Thus, the copyright holder’s interest in protecting his or her limited monopoly is jeopardized by this new technology.

This has prompted changes in the behaviour of copyright holders. While some have

gone to great lengths to protect copyrighted materials from the Internet, others have realized the futility in controlling private use and have relinquished distribution control in the hope that users will avoid commercial activity.

B Technological Developments in Response to Internet Piracy

1 Prevention of access to online material

As a response to the increased threat of piracy the Internet brings, many copyright holders have resorted to technological means to restrict access to online material. Holders can protect their works through a variety of methods, including encryption programmes to prevent copying, and limiting access to data through the use of passwords. Further, computer hardware can be programmed to read encrypted bits, which would permit copying only where an authorised user has access to a particular code or decryption “key”. Incorporation of encryption technology within copyrighted works disseminated over the Internet would allow the copyright holder to limit the number of times his or her work could be retrieved, opened, printed or copied. These methods would in turn limit the ability of users to violate copyright holders’ exclusive rights.

39 See Richard Morrison, The Rights that Don’t Smell Quite Right, The London Times, Oct. 23, 1998, at 41 (suggesting that the recent extension of copyright protection in the United States for movies before they enter the public domain may have been motivated by what was to have been the expiration in 2003 of the cartoon Steamboat Willie, where Mickey Mouse made his first appearance).
41 For example, at www.economist.com, where access to the current Economist publication is limited to those who have an online subscription, who are provided with a password.
New technological developments enable large scale licensing of material on the Internet. Just as publishers in the print world have already worked out a system to license uses of technical articles, the Internet conceivably allows all copyright owners to license all digitally available content. It is possible to encode each bit of content with the information required to ensure payment to the appropriate content owner. One method of doing so is automated rights management ("ARM"). The user need not do any research at all in order to determine the identity of the owner. Rather, the user merely needs to click on a box to agree to pay a given amount. Furthermore, various organizations and entrepreneurs are developing increasingly efficient payment structures for increasingly minor transactions. In the typical situation, each user would have her own account with a service provider. She would pay into that account, and each time she purchased content or access time to some web site, the system would automatically debit her account for a certain amount and credit that amount to the owner.

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43 See Paul Goldstein, *Copyright's Highway* (Nashville, Vanderbilt University Press, 1994), at 224 (examining the likely manifestation of this market).
45 See, e.g., Tom Steinert-Threlkeld, "The Buck Starts Here", Wired, Aug. 1996, 132 (discussing various plans for digital money systems and the hurdles those plans face).
Technologies such as ARM threaten to radically reduce the scope of the fair use defence to copyright infringement. It has been argued that ARM will interact with existing legal doctrines to supplant fair use with an analogous but distinctly different doctrine: fair use. The advent of such technology, combined with recent American decisions, may suggest that fair use is unlikely to be available as a defence where a licensing scheme exists for use of the material and where the alleged fair use interferes with the copyright owners’ potential or actual market. The existence of fair use is further threatened if technological restraints on access to material mean that copyright owners can, in practice, prevent any access to copyright material without payment.

V THE FUTURE OF FAIR USE ON THE INTERNET

This is already common practice for many web sites at present. For example: see www.westlaw.com; www.lexis.com; www.newscientist.com. (Last visited 10 September 2000.)

ARM encompasses a variety of technologies, including: encryption, firewalls, and passwords to limit access to information; digital watermarks and steganography to identify electronic documents; and micropayments and embedded applications to ensure that users pay for protected information. See Julie E. Cohen, "A Right to Read Anonymously: A Closer Look at "Copyright Management" in Cyberspace", (1996) 28 Conn. L. Rev. 981, 982.

See David Post, “Battle or Dance?” AM. LAW., Jan./Feb. 1996, 116, 117 (observing that due to automated rights management, "transaction costs"-of negotiating a license fee for each use of a copyrighted work, however trivial and insignificant—are rapidly disappearing," and raising the question: "Once tracking and payment mechanisms of this kind are in place, is there still a place for fair use?"); David G. Post, “Controlling Cybercopies; Leaping Before Looking; Proposals Would Make Unsettling Changes”, Legal Times-Special Report; Intell. Prop., Apr. 8, 1996, 39, 45 ("[A]lthough one may retain the theoretical legal right to make fair use of material, where rights holders are permitted to use powerful technological means to control access to their works, fair use may prove illusory.")

Very broadly speaking, fair use would require consumers to pay for the right to access and reuse information, rather than appealing to a statutory fair use exception. See Julie E. Cohen, "A Right to Read Anonymously: A Closer Look at "Copyright Management" in Cyberspace", (1996) 28 Conn. L. Rev. 981, 983.

Given the globalisation of copyright law, the critical factor in determining the future of fair use on the Internet in New Zealand copyright law will be the way in which New Zealand's trading partners view exceptions to the rights of copyright holders.51 With this in mind, this paper examines the approach of the United States of America to the issue of fair use and the Internet. It is likely that the United States approach will be the most influential worldwide.52 Furthermore, the issue has been more fully debated in the United States than anywhere else at the present time. The debate in the United States has centred on the findings of the Information Infrastructure Task Force of the Working Group on Intellectual Property Rights. The findings of the Task Force appear in the Report of the Working Group on Intellectual Property Rights, also known as the “White Paper”.53 The White Paper represents the most comprehensive discussion of the role of fair use on the Internet. Some of its recommendations have already been given statutory recognition in the provisions of the National Information Infrastructure Copyright Bill 1995 (NII Bill),54 as well as the Digital Millennium Copyright Act 1998, (“DMCA”). The findings of the White Paper are likely to remain influential in the approach of the US legislature to this issue. This part outlines the findings of the White Paper and the provisions of the DMCA relating to fair use.

The following part examines the validity of the White Paper's reasoning and the provisions of the DMCA.

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51 Due to the extension of multilateral trade agreements to intellectual property, New Zealand is part of a global economy that will become increasingly centred around intellectual property as the information economy comes of age. New Zealand will be under a large amount of pressure to conform to international standards. It is likely that differing exceptions to copyright will not be tolerated by countries with strong intellectual property based economies. New Zealand's intellectual property laws are designed to conform with principles established by international conventions and treaties. For example, New Zealand is a signatory to the Berne Convention for the Protection of Literary and Artistic Works. If overseas countries restrict the exceptions to copyright protection in response to digital technologies, New Zealand will be likely to follow suit.


VI THE US APPROACH

A The White Paper

The White Paper predicts that the Internet will lead to the demise of the fair use doctrine. It posits that licensing will be easier in the digital world, as users of copyrighted work can communicate with, and obtain permission from, the copyright owner cheaply and simply. It then makes a connection between easier licensing arrangements and a more limited scope of the fair use doctrine. According to its reasoning, fair use will be replaced by licensing. The White Paper assumes that licensing will better maintain the balance between copyright holders and users and foster the goals of copyright law.

The conclusion that fair use will have no place on the Internet is based on a number of key premises. First, it is based on the assumption that fair use only exists to correct situations where a use cannot be licensed, and market failure results. It has been stated that “the White Paper attempts to eliminate fair use rights by interpreting existing law as though fair use has no application when a use can be licensed....". Its reasoning is based on the market failure justification of fair use, ignoring other rationales for the doctrine. The second assumption is that the Internet will eliminate market failure by providing perfect licensing markets. The next part examines the validity of the White Paper’s reasoning and concludes that it is flawed.

54 “The NII Copyright Bill of 1995”, Senate Bill 104 S. 1284.
55 White Paper, 83. (The Task Force commented that “technological means of tracking transactions and licensing will lead to reduced application and scope of the fair use doctrine.”)
56 White Paper, 113.
B The Digital Millennium Copyright Act 1998

The DMCA is the most recent US legislation which aims to modify copyright law in the face of new technologies.\textsuperscript{58} It implements two treaties from the World Intellectual Property Organization ("WIPO").\textsuperscript{59} The WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty require signatory countries to grant foreign copyrighted materials at least the same protections as domestic copyrighted materials. The DMCA promotes the main object of the White Paper, namely, to replace fair use on the Internet with a licensing system. It protects the ability of copyright holders to license their work by making illegal technologies which are designed to circumvent technological means employed to prevent unlicensed access to copyright work on the Internet.\textsuperscript{60} The effect of the DMCA is analysed later in this paper.

VII IS THE US APPROACH APPROPRIATE?

A The White Paper

The premises on which the White Paper is based are incorrect for a number of reasons. There are many faults with the market failure justification for fair use in the


print world. Furthermore, the White Paper’s reasoning that emerging digital licensing systems will eliminate market failure on the Internet, is wrong. Lastly, and perhaps most fundamentally of all, the market failure view of fair use is not the only, or indeed the proper justification for the fair use doctrine. As the later part of this paper will demonstrate, other justifications for fair use, when applied to the Internet, emphasise that there is as great a need for the defence as ever before.

B The Market Failure Justification of Fair Use

The White Paper’s analysis is based on a trend in recent years which seeks to interpret courts’ decisions as being based on an economic, or market failure rationale of fair use. Particularly relevant is the response of the market failure justification of fair use to the emergence of new licensing markets. Under the market failure approach, any copyright owner who can demonstrate that they have suffered, or is likely to suffer, a loss of licensing revenues as a result of a failure by a user of copyright material to obtain a copying licence will have a strong case for rebutting the defence of fair dealing. This is explained in greater detail below.

a) Copyright laws enable a private market

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60 17 U.S.C. § 1201(a) (Supp. 1999). This section does not become effective for two years, while administrative rules are being written.

61 This type of analysis started with an influential article by Wendy Gordon: see Wendy J Gordon “Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors” (1982) 82 Colum L Rev 1600.
Expressive content, as a type of information, is a public good. According to the economic model of public goods, absent an intellectual property system, market participants will under-produce expressive works. For instance, if we did not give any copyright protection, publishers might well wait for someone else to publish a successful work. They could then reprint it themselves and save the costs of paying any royalties for the use of the work. Likewise, consumers could simply make their own copies, thereby paying only the cost of the physical reproduction. In such a system, authors would never receive payment adequate to underwrite their work, and society's creative output would suffer. In order to maximize production of creative content, therefore, copyright laws aim to remove expressive works from the realm of public goods.

The copyright system counteracts the public nature of the goods by allowing a copyright owner to exclude non-paying individuals from the benefits. The copyright system gives content creators control over their works specifically to create a workable market between the content creator and potential users. As a result, the copyright-exchange mechanisms function similarly to those in other markets.

63 See Robert Cooter & Thomas Ulen, Law and Economics, (Harper Collins, Glenview, Illinois, 1988) 40 ("economically rational firms will not produce the optimal amount of public goods in an unregulated market").
64 Of course, there are other systems in place in our society that would ensure some creation. For instance, the tenure system at most universities forces academics to produce and provides them with reward for that production. Although such systems will ensure creation of certain types of works, most creation would go without reward.
65 Theoretically, another solution would be to finance creation publicly, that is, the government could produce these works. In fact, our government provides many public goods, such as national defence, scientific research, and weather satellites. But, for obvious reasons, we have chosen a different path for creative works.
66 There is some reason to believe that the digital market itself now allows owners to control the non-excludability element of public goods. This evolving market now grants copyright owners substantial new powers to control dissemination of their own works. Eric Schlachter has described numerous ways in which content owners can control their works without
The economic justification for copyright law argues that the extent of copyright protection should be limited only to what is necessary to provide sufficient incentive to create works not otherwise provided by the unregulated market. This economic analysis of the copyright market rests on the fundamental premise that the purpose of copyright law is to create a workable exchange system between creators and users. Anything that goes beyond the incentive to encourage the creation of new works is likely to create a market inefficiency because of the strength of the monopoly enjoyed by the creator. This dilemma is explained by Cooter and Ulen: 68

Put succinctly, the dilemma is that without a legal monopoly not enough information will be produced but with the legal monopoly too little of the information will be used.

Thus, too much copyright protection has the potential to impede creativity or commercial investment in the new development of material. For example, the

relying on copyright law. See Eric Schlachter, “The Intellectual Property Renaissance in Cyberspace: Why Copyright Law Could Be Unimportant on the Internet”, (1996) 12 Berkeley Tech. L.J. 15, 38-49. (Arguing that copyright laws may be unnecessary because content owners will take advantage of certain aspects of the new medium to protect their works through technological, rather than legal, means); see also Mark Stefik, “Shifting the Possible: How Trusted Systems and Digital Property Rights Challenge Us to Rethink Digital Publishing”, (1997) 12 Berkeley Tech. L.J. 137, 138. (“With the development of trusted system technology and usage rights languages with which to encode the rights associated with copyrighted material, authors and publishers can have more, not less, control over their work.”) With the content owners’ new-found controls, some might argue that the goods are no longer public at all. To present the particular problems that disturb a market, goods must have both of the elements discussed above: non-rivalrous consumption and non-excludability. Without the public goods problem, perhaps there is no need for fair use or for copyright law at all. In fact, a similar line of reasoning has led some commentators to just such a conclusion: Because copyright law and digital technology each perform the same function, there is no need for copyright law in this environment. See Schlachter, supra, 49.

However, there is an inherent benefit to public goods. The fact that they are non-rivalrous is a tremendous source of value. We should inquire, then, if there is a similar check on digital technology that allows us to retain some of the benefits of public goods. Eventually, technology may allow users to ignore content owners’ controls and thus copy without paying. Theoretically, such circumvention provides a way for users to render a type of use public. Without fair use or other circumvention capability, we lose the ability to make the minor adjustments that temper the content-owner’s monopoly power and that preserve the benefits of public goods.


producers of multimedia works often seek to incorporate elements of existing works in an original setting. Increasing copyright protection, or reducing limitations on the owner's rights, could be detrimental to the interests of creators such as multimedia artists by preventing such uses of existing works. Thus, any expansion of the rights of the author as a creator will also hinder the creative scope of the author as a user.

The analysis of economists Landes and Posner supports this notion. They argue that "the less extensive copyright protection is, the more an author, composer or other creator can borrow from previous works without infringing copyright and the lower, therefore, the costs of creating a new work." The converse, they argue, is also true - the more extensive copyright protection becomes, the higher the costs become of creating a new work, which may in fact work against the incentive ideal. Extensive protection may also lead to the lack of an efficient industry standard where such a standard would be in the public interest.

Fair use enters into this economic analysis of copyright when, due to imperfect conditions in the copyright market, the costs of creating a new work are too high as a result of copyright protection, which stops a new user from using the copyrighted material. This is the market-failure justification of fair use. The market-failure explanation provides a strong justification for courts to grant free use to certain types

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69 For example Postmodern artists, such as Jeff Koons, often create art by taking everyday objects and placing them in a museum setting, often without permission of the copyright holder.

70 W. Van Caenegem, “Communications Issues in Copyright Reform”, (1995), 13 Australian Copyright Reporter No 3, 72, 81.


73 See 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 (1982). In this article, Professor Gordon first applied a market failure analysis to the fair use doctrine.
of copies in the print world. The argument identifies that fair use is a necessary response to the various costs that prevent the copyright marketplace from functioning in a proper way. An example of the copyright market not functioning in a flawless manner is the example of the use of small amounts of text from copyrighted works. For the average user who wishes to quote from a passage in a book, a market for such small portions of information has never developed because owners have never come up with an efficient way in which to license copies to users. The fair use of such material can be justified as a remedy for this failed market.

Fair Use Corrects Imperfections in the Copyright Market

If the market between a copyright-holder and a user is perfect, the two parties will be able to come to an agreement on a price and enter into a contract to allow the use of the material.\(^74\) In such a case, economic insight suggests that the policy aims of copyright are not threatened: the owner receives a reward for creation, and the user will be able to use the materials in new and potentially productive ways.\(^76\) Having

\(^74\) Substantial complications arise in even a simplistic application of this model to the copyright world, in part because of the presence of the public goods problem. Not only is the original content naturally a public good, but many types of secondary uses have the public goods characteristics as well.


\(^76\) Note that this claim oversimplifies the issue. If we allowed the user free use of the material, the user would have more resources to spend on other activities, including perhaps the acquisition and distribution of other pieces of intellectual property. Although all transfers that promote efficiency would occur in a perfect market, we may want to distribute wealth in other cases as well. Accordingly, a potential function of fair use is to encourage transfer even when not efficiency-enhancing, for purely distributional reasons. See Robert P. Merges, “The End of Friction? Property Rights and Contract in the "Newtonian" World of On-line Commerce”, (1997) 12 Berkeley Tech. L.J. 115, 131, 133-34. Professor Gordon notes that "[i]n some cases, distribution-related reasons may become particularly inappropriate; constitutional values are rarely well paid in the"
allowed owners to close out free-riders, the copyright system does not need to take any further steps. However, in certain circumstances, imperfections in the market interfere with efficient outcomes. When substantial transaction costs\textsuperscript{77} or other imperfections are present in a given market, the market will not necessarily produce the most efficient outcome. In such cases, some sort of outside interference, (legislative or otherwise) may help to ensure a more beneficial result.\textsuperscript{78}

In the copyright market, analysts have identified many sources of imperfection. These commentators have focused primarily on the tracing and bargaining costs that pervade this marketplace. Tracing costs\textsuperscript{79} occur because the copyright owner is rarely present when the subsequent user decides to copy the work. The identity of the owner often will not be obvious from viewing the copyrighted work, and the owner will rarely be easy to reach. Bargaining costs refer to the expense of negotiating with the distant party who owns the copyright in the work. In the absence of a fully functioning and efficient sub-market in the type of content sought to be used, it is likely that such costs may exceed the benefits the transfer of material would otherwise create.\textsuperscript{80} If so, the transfer will not occur. As a result, the goal of furthering learning is not advanced at all.

The fair use doctrine can be seen as an attempt to respond to such failures in the marketplace and, while the citizenry would no doubt be willing to pay to avoid losing such values, it is awkward at best to try to put a 'price' on them." Id. 1631.

\textsuperscript{77} Because various people use the term transaction costs in slightly different ways, the particular type of cost or failure that is evident in a given instance will be referred to.

\textsuperscript{78} See, e.g., Guido Calabresi & Douglas Melamed, "Property Rules, Liability Rules, and Inalienability: One View of the Cathedral", (1972) 85 Harv. L. Rev. 1089, 1111. The authors carry the idea so far as to say that in certain circumstances, the most economically efficient solution may be to forbid bargaining altogether.

\textsuperscript{79} See William M. Landes & Richard A. Posner, "An Economic Analysis of Copyright," (1989) 18 J. Legal Stud. 325, 346 (identifying tracing costs as consisting of determining exactly who owns the copyright and tracking down that person, and concluding that these costs explain certain limitations on the copyright, such as the limited term of years).

\textsuperscript{80} See, e.g., Gordon, supra note 9, at 1608.
copyright market. In general, the market will yield the result copyright policy dictates. However, in situations in which imperfections lead to market failure, and as a result, the goal of payment to the content owner is unattainable, fair use provides a correction to the market that preserves at least some of the overall copyright goals. This concept has been explained along the grounds of some benefit is better than none:

Fair use operates on the pragmatic notion that half a loaf is better than none: without it, the copyright owner would get no revenues because costs of negotiating a license are insuperably high, while the prospective user would for the same reason get no copy; with it, the copyright owner still gets nothing, but the user at least gets to make a copy.

To use the example of a person writing an essay for an English course and wishing to quote a small passage from Hunter S. Thompson’s book *Fear and Loathing in Las Vegas*, the transaction costs in gaining the permission of the copyright owner could be likely to involve considerable costs. The identity and location of the copyright holder would have to be determined, which could involve a significant amounts of

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81 See Gordon, Wendy J Gordon “Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors” (1982) 82 Colum L Rev 1600, 1605. Although Gordon first expounded this market-failure paradigm in 1982, the market function has long been central to the fair use analysis. From the earliest fair-use cases, courts have looked to the effect of potential infringements on the relevant markets. When he first introduced the concept of fair use into the copyright doctrine, Justice Story directed courts to look to the "degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work." *Folsom v Marsh*, 9 F. Cas. 342, 348 (D. Mass. 1841) (No. 4901). The greater the likelihood of such adverse economic effect, the less likely a court should be to find a use fair.

82 Professor Gordon posited that there are three concerns to weigh before finding fair use: first, author incentives; second, user access; and third, whether the defendant can "appropriately purchase the desired use through the market." Wendy J Gordon “Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors” (1982) 82 Colum L Rev 1600, 1605. ("[F]air use should be interpreted as a mode of judicial response to market failure in the copyright context, and ... the presence or absence of the indicia of market failure provides a previously missing rationale for predicting the outcome of fair use cases.").

83 Goldstein, *Copyright's Highway* (Nashville, Vanderbilt University Press, 1994), at 170. Note that this solution corresponds to the most basic notion of achieving equal to efficiency. A solution is equal efficient if it makes one party better off without making any other parties worse off.
time and money. Also, gaining permission from the copyright holder would involve additional costs, such as long distance telephone calls. The parties would then have to bargain with each other in order to determine a price for the use of the quote.

In the context of fragmented copying, as in the above example, the courts have tended to favour the user's rights over the copyright owner's rights. Whether they find a particular use de minimis, fair use, or both, courts have generally allowed users to make fragmented copies of print content without paying the owner. However, the courts' opinion may change when arrangements exist, or come into existence which facilitate gaining a license to copy.

c) The Effect of Emerging Markets on the Scope of Fair Use under the Market Failure Paradigm

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84 See, e.g., Werlin v. Reader's Digest Ass'n, Inc., 528 F. Supp. 451, 464 (S.D.N.Y. 1981) (finding the copying of two separate lines from an article "to be so fragmented as to be de minimis"); see also White Paper, at 65 ("When copying is ... of such a small amount as to be de minimis, then there is no infringement liability."). The reader should note that courts will sometimes use de minimis to describe a slightly different situation. Instead of taking only a de minimis amount of expression, the user may take a substantial amount, yet the particular infringement is so insignificant as to cause no noticeable injury. See Melville B. Nimmer, Nimmer on Copyright (1997) § 8.01[G]. For instance, a court might find that the copy made of a work when a user's computer displays it on the monitor is so transitory as to be de minimis.

85 See, e.g., Elsmere Music, Inc. v. NBC, 482 F. Supp. 741, 744 (S.D.N.Y. 1980) (finding copying of four notes out of 100 bars of music to be fair use); see generally Nimmer, Nimmer on Copyright (1997) § 8.01[G].

86 See, e.g., Toulmin v. Rike-Kulmer Co., ("The use of one sentence and part of another [took] neither a substantial nor material part of the [original work], did not in any degree prejudice the sale, diminish the profits or supersede the objects of the original work, and was thus a 'fair use' thereof ... [T]his is a clear case of de minimis.") One commentator finds the courts' mixed terminology to be unfortunate. Nimmer argues that "the meaning of 'fair use' is thereby rendered confusingly ambiguous." See also Linda J., "Of Bread and Roses and Copyrights", 1989 Duke L.J. 1532, 1545 ("The idea that a de minimis copying may constitute fair use has existed for decades and was apparently endorsed by Justice Blackmun in the Betamax case ... Blackmun gave examples of situations in which de minimis copying was appropriate, such as photocopying newspaper clippings or pinning quotations on a bulletin board."
To the extent that courts rest their rationale for fair use on tracing and bargaining costs, they may be less likely to grant fair use when a particular copyright market develops that more closely resembles these other types of markets. A number of recent decisions have been perceived as using the emergence of a newly developed licensing market to drastically limit the scope of fair use protection.

i) The Texaco case

The dispute in *American Geophysical Union v. Texaco Inc* (“Texaco”) focused on the practices of Texaco's in-house researchers. Texaco maintained a library that subscribed to various scientific and technical journals. The library circulated the journals among its 400 to 500 researchers. When researchers found that a particular article would be of use in their work, they would copy the article or ask another Texaco employee to copy that article.

The Court acknowledged that Texaco had a valid market-failure rationale for this practice in the past. Previously, there had never been "a simple or efficient means to obtain single copies of individual articles." Publishers had traditionally released

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87 New forms of technology will often reduce the costs that interfere in given markets. Of course, these new technologies are generally designed to achieve just some such effect. Examples include moveable-type printing presses, video cassette recorders, digital audio tapes, fax machines, and so on. In one of the more dramatic examples, the photocopier has worked a huge change in the landscape for copyright owners and users. With the advent of this new machine, users could suddenly make copies at a small fraction of the cost they would have expended previously (such as the time it might take to write out a new copy by hand). The advent of the photocopier did not address per se the tracing or bargaining costs inherent in the market, that is, it did not directly allow users to track down owners and bargain with them. Nonetheless, an institution, the Copyright Clearance Centre, eventually (and predictably) arose to take advantage of the new efficiency the photocopier created.


89 60 F.3d 913 (2d Cir. 1994).

90 60 F.3d 913 (2d Cir. 1994), 915.

91 Above n.90, 927.
individual articles only in the format of a complete journal volume. Consequently, Texaco argued, its practice of copying individual articles did not affect any judicially recognisable market. The court agreed that "[o]nly an impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets should be legally recognisable when evaluating a secondary use."92 Further, the court agreed that "a particular unauthorized use should be considered 'more fair' when there is no ready market or means to pay for the use, while such an unauthorized use should be considered 'less fair' when there is a ready market or means to pay for the use."93 Nonetheless, the court decided against Texaco. The Court emphasised the ability of Texaco to obtain a licence for its copying of journal articles, rather than copying them for free. Thus, the Court held that a use will be considered less fair when there is a ready market or means to pay for the use.94 The court's reasoning turned on the new market presence of the Copyright Clearance Center ("CCC").95 The court concluded that the publishers involved in the formation of the CCC had created "a workable market for institutional users to obtain licenses for the right to produce their own copies of individual articles via photocopying."96 In other words, the publishers had set up a market in which the transaction costs of paying for the given use were minimal.97 On the strength of this observation, the court found that Texaco had no valid fair-use defence, even though the scientists were engaged in research.98

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92 Above n.90, 930.
93 Above n.90, 931.
94 29 IPR 38, 406.
95 See American Geophysical Union, 60 F.3d at 929 n.16; see Paul Goldstein, Copyright's Highway (Nashville, Vanderbilt University Press, 1994), 219-23 (discussing the Copyright Clearance Centre's creation and rise in influence).
96 60 F. 3d 913 (2d Cir. 1994), 930.
97 The Copyright Clearance Centre ("CCC") facilitates licensing of individual articles from various copyright holders. An organization might get a blanket license from the CCC to copy articles the CCC controls, or it might pay fees for the copies on a per-copy basis. The CCC aims to distribute the proceeds fairly among the various authors it represents. Users can make copies themselves and pay for them much more cheaply and quickly than if they called the owner and ordered a new copy of the work. By paying the CCC a reasonable royalty for the right to copy, the user divides the new-found
ii) The Princeton case

*Princeton Univ. Press v Michigan Document Service, Inc.* ("Princeton")\(^99\) concerned a copy shop that served the academic community at the University of Michigan. The copy shop prepared course packs for various classes. The owner of the shop refused to request permission from, or to pay licensing fees to, the textbook publishing companies from which he copied the materials for the course packs. At first instance, the Court in deciding in favour of the defendant's copying activities, said that:\(^{100}\)

Evidence of lost permission fees does not bear on market effect. The right to permission fees is precisely what is at issue here. It is circular to argue that a use is unfair, and a fee therefore required, on the basis that the publisher is otherwise deprived of a fee.

However, the Court's decision was overturned by a majority of the same Court following the Appeal Court's decision to hear the case *en banc*. Similar reasoning to that of the court in *Texaco* was adopted in the second hearing by the Sixth Circuit in *Princeton*. The Sixth Circuit held that the commercial preparation of course notes did not merit a fair use, even though the ultimate purpose of the copying was education. The court in *Princeton* focused on factual issues that showed that tracing costs were minimal. The court noted that the three plaintiff publishing companies each had a department that processed requests from these copy shops. Furthermore, the copy shop could have licensed the use through the CCC. *"Where . . . the copyright holder clearly does have an interest in exploiting a licensing market...and especially where the copyright holder has actually succeeded in doing so, it is*

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\(^{98}\) 60 F. 3d 913 (2d Cir. 1994), 931-32.
appropriate that potential licensing revenues for photocopying be considered in a fair use analysis." In this instance, the three plaintiffs together earned a substantial amount in copy shop permission fees. The court concluded that "the destruction of this revenue stream can only have a deleterious effect upon the incentive to publish academic writings."**

d) The shrinking power of new licensing markets on the fair use doctrine

In both the *Texaco* and *Princeton* cases the courts denied fair use to an activity that would have been likely to be classified as fair use in the past. According to a market failure analysis of the decisions, both cases support the argument that any copyright owner who can demonstrate that they have suffered, or are likely to suffer, a loss of licensing revenues as a result of a failure by a user of copyright material to obtain a copying licence will have a strong case for rebutting the defence of fair use.

2 The White Paper is incorrect in its market failure analysis of fair use in the print world

a) The limited effect of the *Texaco* and *Princeton* cases

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100 99 F.3d 1381 (6th Cir. 1996), (first instance) per Ryan J.
The White Paper's reasoning that fair use will be replaced by a doctrine of "fared use"\(^{103}\) is based on the perception that *Texaco*\(^{104}\) and *Princeton*\(^{105}\), in rejecting the defence of fair use, did so on the grounds that the ability to license will always trump the presence of third party benefits. On a superficial view of the reasoning of the two cases, this might appear to be true. The cases involved research and educational uses. Yet, it is vital to make certain distinctions between various uses that are beneficial. A use can be beneficial in one of two ways. The beneficial use may be merely *distributive*, in the sense that it takes the information and distributes it to a greater audience. Alternatively, the use may be a *transformative* use, meaning that it also adds new content to the original information.

A close analysis of *Texaco* and *Princeton* demonstrates that the uses involved were of the distributive type, a use which is rarely excused by the fair use doctrine. Distributive uses serve the important copyright policy interest of increased public access to copyrighted information. For instance, even though it did not receive fair use protection,\(^{106}\) the copy shop in *Princeton*\(^{107}\) helped to broaden the audience for certain academic texts. Having assigned given readings to their students, the professors encouraged a wider distribution of the works in question. When it made the actual copies, the copy shop assisted in this process,\(^{108}\) even though it was not responsible for any of the creative content or the expressive message of the works.

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\(^{103}\) The term "fared use" refers to the implementation of online licensing systems.

\(^{104}\) 60 F.3d 913 (2d Cir. 1994).


\(^{106}\) See text below for a discussion of the effect of the high degree of commerciality of the particular use in this case.


\(^{108}\) Arguably, the use in *Texaco* had some distributive qualities as well. Certainly, Texaco was the end user. However, the copying did not directly facilitate this end use. Rather, the court emphasized that the copying was "a systematic process of encouraging employee researchers to copy articles so as to multiply available copies while avoiding payment."
Transformative uses, in addition to ensuring a wider audience, add new expressive content to the original. A recent Supreme Court case demonstrates the importance of creative uses of content. In *Campbell v. Acuff-Rose Music, Inc.* ("Campbell"),\(^{109}\) the Court reviewed a rap group’s use of the Roy Orbison song "Oh, Pretty Woman!" The group, (2 Live Crew), had created a comic version of that song. The band contacted Acuff-Rose, the holder of the copyright in the song, offering to pay royalties for its use. Acuff-Rose refused to grant a license for the use.\(^{110}\) The Court extended fair use analysis to this situation, in large part because 2 Live Crew had fundamentally changed the original song and created a new expressive work.

The Court ruled that the question of whether a use is transformative is central to any analysis considering "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes."\(^{111}\) The Court explained that the purpose of the analysis of the above factor "is to see ... whether the new work ... adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message."\(^{112}\) Transformative works "lie at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright."\(^{113}\) Applying this test to the case at hand, the Court explained that parody "has an obvious claim to transformative value . . . [T]he predominate archival purpose of the copying tips the first factor against the copier ...." *Texaco*, 924. In essence, Texaco's system served to create several hundred mini-libraries of articles of interest to the 400-500 individual scientists. It distributed the work to the scientists. Further, the system served a directly commercial purpose of taking advantage of Texaco's sheer size to pay less per scientist in the copyright market. By comparison, fifty smaller firms, with 10 research scientists each, would each have to order the entire set of journals in order to keep current in the field.

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\(^{109}\) *510 U.S. 569 (1994)*.

\(^{110}\) *510 US 569, 572-73.*

\(^{111}\) Above, n110, 579. This is the first factor of s 107 of the US Copyright Act. The New Zealand statutory equivalent is s43(3) of the Act.

\(^{112}\) Above, n110, 579.
provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one."\textsuperscript{114} The Court explained that the words in the infringing song "can be taken as a comment on the naïveté of the original of an earlier day, as a rejection of its sentiment that ignores the ugliness of street life and the debasement that it signifies." \textsuperscript{115} Focusing on the transformative value generated, as well as on the anti-dissemination motive inherent in this market,\textsuperscript{116} the Court held that the use of material from Orbison's original might indeed be protected as a fair use, even though the copying was obvious and for commercial gain.\textsuperscript{117}

The Supreme Court in \textit{Campbell} reaffirmed the importance of transformation and provided a strong statement on the issue.\textsuperscript{118} In the wake of \textit{Campbell}, lower American courts have, in fact, relied heavily on the presence of transformative value to grant fair use.\textsuperscript{119} Furthermore, those cases that deny fair use properly emphasize that there is little transformative value in the particular use at issue.\textsuperscript{120}

\textsuperscript{113} Above, n110, 579.
\textsuperscript{114} Above, n110, 579.
\textsuperscript{115} Above, n110, 579.
\textsuperscript{116} Above, n110, 580.
\textsuperscript{117} See \textit{Campbell v. Acuff-Rose Music Inc.}, (1994) 510 U.S. 569, 585. The Court held that the parodic character of the use was protected. However, the Court remanded the case for the lower courts to examine the effect on the potential market for rap derivatives of the song. 2 Live Crew could not have a fair use to usurp that market.\textsuperscript{118} The Court was responding, in part, to requests for stronger guidance. The Court notes this Above, n110, 586.
\textsuperscript{119} For instance, a US district court recently ruled that a parody can receive a fair use even if it appears in the form of an advertisement. \textit{Leibowitz v. Paramount Pictures Corp.}, 948 F. Supp. 1214 (S.D.N.Y. 1996). The case involved a parody of the famous photograph of a nude and pregnant Demi Moore that appeared on the cover of the August 1991 issue of Vanity Fair magazine. Paramount Pictures created a photo of a pregnant woman's body in a similar pose with Leslie Nielson's head superimposed onto the body. Paramount used the photo to advertise its upcoming movie, \textit{Naked Gun 33 1/3: The Final Insult}. Notwithstanding the fact that this was an advertisement, the court justified a fair use "by returning to the core purpose of copyright: to foster the creation and dissemination of the greatest number of creative works." Above, \textit{Leibowitz}, 1223. The court had found this purpose would be "best served by a
It also will be a relevant issue as to whether or not the use of the copyrighted material is for a commercial purpose or not. This inquiry is a part of the Copyright Act. The first statutory factor in s43 (3) of the New Zealand Act mandates consideration of "the purpose of the copying". Thus the court would have to consider whether such copying is of a commercial nature or is for non-profit educational purposes. The fourth statutory factor of the Copyright Act also points to this type of inquiry. A court is to examine "the effect of the copying on the potential market for, or value of, the work." In the case of Television New Zealand Ltd v Newsmonitor Services Ltd ("Television New Zealand") Justice Blanchard found that a fair use for the purpose of research and study did not encompass activities in which the material is simply copied and passed onto others for the commercial profit of the copier. Justice Blanchard commented that "a news monitoring business is parasitic. Why should it have a free ride on a broadcaster."

Whether a use is commercial is also a material consideration for the US Courts. In Sony Corporation of America v. Universal City Studios, Inc. ("Sony") the Supreme Court indicated that the degree of commerciality of a given use may create finding that the highly transformative character of the Nielson ad trumps its admittedly commercial purpose. For instance, when the Sixth Circuit denied a fair use in Michigan Document Services, it stated that "the degree to which the challenged use has transformed the original copyrighted works ... is virtually indiscernible." Princeton Univ. Press v. Michigan Document Servs, 99 F.3d 1381, 1389 (6th Cir. 1996), cert. denied, (1997) 117 S.Ct. 1336. The court concluded that the copying bore "little resemblance to the creative metamorphosis accomplished by the parodists in the Campbell case." See also Los Angeles News Service v. KCAL-TV 108 F.3d 1119 (9th Cir. 1997). In the case the court denied a fair use to one television channel to broadcast another channel's tape of the Reginald Denny beating, when the user did not edit or transform the tape in any way, except to place its own call letters over the others. Even though this was a news broadcast, the complete lack of transformation weighed against fair use. See above at 1122. This use was essentially a commercial distributive use.

Copyright Act 1994 s43(3)(d)

[121] Copyright Act 1994 s43(3)(d).
[122] [1993] 27 IPR 441, 465.
[123] Above n 122, 466.
a presumption that a given use is or is not a fair use.\textsuperscript{125} Even though the Court subsequently cautioned that one should not elevate the presumption to a general rule, it explained that the factor was one of many to consider.\textsuperscript{126} In accordance with this idea, in both \textit{Texaco} and \textit{Princeton}, the courts relied on the commerciality of the use to deny fair-use protection.\textsuperscript{127}

The White Paper argues that the presence of digital networks should change the fair analysis, just as similar efficiency advances have in other contexts. This reasoning is based on the view that the courts in \textit{Texaco} and \textit{Michigan Document Services} disallowed copying activities that would have received fair use protection twenty years ago. Notwithstanding the White Paper's view of those cases, a court should distinguish between distributive and transformative uses and between commercial and non-commercial uses before considering the effect of a seemingly more efficient market.

If the use is distributive, then the court should more rigidly apply the presumption that a commercial use is not a fair use. The second-comer generates externalities that serve the public access part of the copyright balance. However, the expressive value is still entirely attributable to the original writer. If the second-comer can internalise the benefits, then he should share those with the author, in order to maintain the overall

\textsuperscript{125} See \textit{Sony Corp. of America v. Universal City Studios, Inc.}, 464 U.S. 417, 448-49 (1984) ("Although not conclusive, the first factor requires that 'the commercial or non-profit character of an activity' be weighed in any fair use decision. If the VCRs were used to make copies for a commercial or profit-making purpose, such use would presumptively be unfair. The contrary presumption is appropriate here, however because [this was] a non-commercial, nonprofit activity."


\textsuperscript{127} See \textit{Princeton Univ. Press v. Michigan Document Servs.}, (6th Cir. 1996) 99 F.3d 1381, cert. denied, (1997) 117 S. Ct. 1336, 1348 "What the publishers are challenging is the duplication of copyrighted materials for sale by a for-profit corporation that has decided to maximize its profits... and give itself a competitive advantage over other copyshops... by declining to pay the royalties requested by the holders of the copyrights."). \textit{American Geophysical Union v. Texaco Inc.}, (2d. Cir. 1995) 60 F.3d 913, 915 ("Texaco conducts considerable scientific research seeking to develop new products and technology primarily to improve its commercial performance in the petroleum industry.").
incentive structure. Furthermore, if the second-comer distributes an exact copy of the original, we can presume that the distribution will adversely affect the market for the original and hence run afoul of the Copyright Act.

On the other hand, if the use is highly transformative, then the user's ability to internalise the benefits is less important to the analysis.128 If the user generates the positive externalities through her own creation of expressive content, then copyright policy is served when that party exploits her new content. For this purpose at least, in measuring the extent of the benefits generated, it makes no defensible difference whether the party acts for profit or for other motivation. This point was recognised in Newsmonitor. The High Court did not view the use of copyright material for research or study in a commercial setting as necessarily excluding the fair use defence. In obiter, Justice Blanchard stated:129

...(S)o I conclude that a fair use for the purposes of research within s.19(1) can be something with a commercial end in view.

Furthermore, the economic analysis can be criticised for being circular. That is, the analysis reduces to the proposition that if the use can be licensed, then its unlicensed use is not fair.130 That formulation would allow copyright owners to define fair use, and that result makes no sense because fair use is supposed to be a limitation on copyright, not a marketing option for copyright owners.

128 See Campbell v. Acuff-Rose Music Inc., (1994) 510 U.S. 569, 585. ("[T]he more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.").
129 [1993] 27 IPR 441 at 463.
130 This point was made by the dissenting judge in Texaco v American Geophysical Union 60 F.3d 913 (2d Cir. 1994).
b) The *Texaco* and *Princeton* cases should not be influential in the application of fair use on the Internet. We should hesitate to extend the rationale of *Texaco* and *Princeton* to all instances of copying in digital markets. As discussed above, the defendants in both cases engaged in distributive copying activity. Furthermore, both cases involved highly commercial uses. Both cases fall into the type least deserving of fair-use treatment. Therefore, the White Paper is incorrect in its reasoning that the above cases support a market failure view of fair use. The *Texaco* and *Princeton* cases should not be treated as influential in deciding the role of fair use on the Internet given that it will be highly transformative uses that will be likely to be the prevailing uses on the Internet.\(^\text{131}\)

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New technologies combined with the market failure doctrine have the potential, in theory, to modify "fair use" into "fared use".

According to the White Paper the rationale on which the court in Princeton and Texaco relied potentially has implications that extend far beyond the market for scientific and academic articles. In fact, in the view expressed in the White Paper, if there were some efficient way to link up every paragraph, every sentence, or every word with the content owner, the market failure rationale for fair use protection would largely disappear, even for highly transformative, non-commercial uses of information. The Internet could have precisely this effect. As Professor Goldstein has explained, digital environments "may reduce the transaction costs of negotiating licenses not only for complete works, such as journal articles, but for small fragments as well." Consequently, the White Paper predicts that because the contemporary fair use doctrine is predicated on a market failure rationale, and because an electronic exchange potentially eliminates this market failure for digital content, fair use law will significantly shrink, or an alternative basis for fair use will be rediscovered.

According to the White Paper online licensing institutions using new digital technologies may well obliterate the fair use defence entirely. Or, stated in another way, if the fair use defence arises only when transaction costs are

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prohibitive, the dramatic reduction in those costs will give the defence a very limited role in the future.\textsuperscript{134}

The market failure justification is inappropriate when applied to fair use in a digital context

Those who suggest that fair use will have a reduced role to play in the future predict that the Internet will allow the creation of a licensing market in which they can put coded information on-line and extract payments from most end-users with minimal transaction costs. This situation indicates that the copyright owners’ access to users of copyrighted matter is relatively cost-free and the owner can now bargain with certain users, which certainly serves the incentive goal of copyright law.

However, such digital licensing schemes will not produce perfect markets.\textsuperscript{135} Other imperfections can prevent certain users’ participation in that same market, even when their uses would be beneficial to society. At least three types of market failure will persist in the digital market despite the emergence of new methods to license information. First, lingering bargaining costs will interfere directly with a content owner’s ability to set up a market for fragments that is very efficient. Second and third, the presence of either externalities or anti-dissemination motives can interfere with a given user’s capacity to produce socially efficient uses.

\begin{flushright}
\textsuperscript{134} Robert P. Merges, above n 133, 132.
\end{flushright}

\begin{flushright}
\textsuperscript{135} Admittedly, there will be some situations where transaction costs will be reduced on the Internet and accordingly copyright holders may justifiably be able to seek revenue in settings that might previously have been considered fair use.
\end{flushright}
a) Bargaining costs

The first source of market failure for copying in a digital environment will arise from the difficulty inherent in the valuation of transfers of information. It will be very difficult for parties to agree on the exact cost of the information. In particular, it may be difficult to agree on how much should be paid for the use of small portions of information. This is illustrated in the example of a person writing an essay for an English course, who wishes to use a quote from Hunter S. Thompson’s book *The Rum Diary*. It will be hard to say how much the use of the quote is worth to the person writing the article. For the purpose of this argument suppose that the user of the quote is willing to pay $10 to copy it. Even if only one paragraph is copied, the owner of the copyright will argue that the paragraph taken is the most valuable of the text, and that is why that paragraph has been chosen by the user. So the author will argue that the fair price is in fact much more than $10. Even if the user only want to use one sentence the copyright holder might still argue that the user has taken the most valuable sentence of the book and should be charged accordingly. The user may only have a budget of $100 for the entire article, and if $10 is too high a price for the use of the Hunter S. Thompson quote, then the quote will not be used at all.

In theory, these parties could bargain to a resolution and agree on the cost of the use of the quote. The problem with this is that the bargaining costs will undercut precisely the presumed perfect market that the White Paper predicts will occur in the

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136 Admittedly, in practice there will be few first year English students who are willing to spend $100 on essay writing materials.
digital medium. In practice, it is likely that not everyone will want to quote the same passage. In fact every fragmented copy will be different. If the contracting parties could agree on a simple formula for pricing use of the information, there would be no problem. For example, the parties might agree that the user should be charged one cent per word to copy. In reality, every transaction will be unique. As a result the bargaining parties will be unable to agree on some pre-determined formula results in a just price.\(^{137}\) Therefore, bargaining costs will still remain in the digital realm. Consequently, the White Paper is wrong in its assumption that there will be a perfect market on the Internet.

\[\text{b) Externalities}\]

A second type of market failure results from the fact that a given user’s willingness to pay may not reflect all the social benefits that flow from the use.\(^{138}\) To ensure an efficient outcome, the bargaining parties must bear all the costs and reap all the benefits of the bargain.\(^{139}\) If all the costs and benefits are not "internal" to the transaction, then the willingness of the parties to agree on a certain price will not necessarily reflect the true social value. Ideally everyone who will be affected by a

\(^{137}\) One solution to this problem might be a blanket licensing scheme like those ASCAP (or the CCC) provides certain users, under which the user buys the right to use any ASCAP works or any part thereof. Because the owners have aggregated the sources, the initial bargain will be much easier for the parties. Further, the parties need not repeat the negotiation wastefully. Unfortunately, such a solution is entirely theoretical and unlikely in the foreseeable future. The range of content and of content-providers on the Internet is simply far too vast for any umbrella scheme. ASCAP, by comparison, only covers one aspect of the music copyright industry, and only some owners at that. Further, those owners are not always satisfied with ASCAP’s imperfect payment schemes. Application of this model to the Internet is exceedingly difficult at best. That said, we should certainly try to encourage these more efficient mechanisms. To the extent that content owners actually have set up a system that removes the bargaining problem for a given class of users, courts should be sensitive to that fact. Subject to the further analysis suggested in this article.

transaction should participate in the negotiations and any exchanges. However, where the potential beneficiaries or injured parties are numerous or geographically separated, the affected parties cannot possibly all sit down at the bargaining table to air their viewpoints. In some instances, the parties will be able to internalise the costs and benefits. A typical way parties can internalise a copyright use is through commercial exploitation of that use. If the benefits are non-commercial, however, the copyright user may not be able to internalise them. In such a case, intractable market failure will develop.

The example of the author who wishes to use the Hunter S. Thompson quote provides an illustration of how externalities can affect this market. The only parties to the potential transfer of the right to copy parts of Hunter S. Thompson’s work will be the user and the copyright holder. However, the intended beneficiaries of the transaction will be the individuals who will read the article. Access to the Hunter S. Thompson quotes will enhance the literary article, and will add to the understanding and knowledge of those who read the article. Ultimately, this knowledge will be of benefit to society generally. The important question for the current analysis then becomes: can the user successfully “internalise” the potential benefits of the transfer? In the absence of funding from some source to pay for such materials, it


140 An archetypal example of this phenomenon is a power plant that produces pollution in a city. The potential beneficiaries of pollution controls are all the residents of the city who otherwise breathe the smog produced. But it would be entirely too costly to bring all of the residents to the bargaining table. See Cooter and Ulen above n 139, 99-100 (“Private bargaining is unlikely to succeed in disputes involving a large number of geographically dispersed strangers because communication costs are high, monitoring is costly, and strategic behavior is likely to occur. Large numbers of land owners are typically affected by nuisances, such as air pollution ....”)
can be assumed that the benefit will not be effectively internalised.\textsuperscript{141} This is especially the case if the user is not in a position to recapture the benefit from society generally.\textsuperscript{142} If the benefit is not effectively internalised, then the bargaining process will understate the actual value of the transfer to society. As a result the transfer will not occur, because the writer of the article will not pay the market price. Given these facts, the market has failed to produce the outcome that would best reconcile copyright's public and private goals.

\textbf{c) Anti-Dissemination Motives}\textsuperscript{143}

The third source of market failure in the market for digital information is the potential existence of anti-dissemination motives. Sometimes, a copyright owner will refuse to license a given use at a certain price for reasons that have nothing to do with the author's attempt to gain payment for her original creation of the work. Rather, the owner may simply not approve of the context in which the user places

\textsuperscript{141} A theoretical solution to this problem would be for the university to have a fund to pay for uses of this sort. The idea would be that the members of society pay taxes (or tuition) to the school that reflect the economic value the university will add to the community (or to their children). The university then can be an effective proxy for the community's interest. Even if the university has a fund, the idea that it could internalise the benefits down to this level is dubious. Like the copyrighted works themselves, education is a quasi-public good. It is non-rivalrous, and the benefits spread across society in a way that the provider cannot control. Consequently, like other public goods, each incremental source of education is systematically undervalued. For instance, without the rules that we have in place, a large segment of the population would not seek education past primary school. Consider the past experience of farm kids who stopped going to school after a certain age to help out on the farm. This behaviour reflected perfectly rational short-term behaviour for the parents, because they needed help immediately with the harvest. The fact that society generally lost the benefit of an educated population simply did not weigh heavily into the parents' decision.

\textsuperscript{142} If the article was published in a journal or magazine, then the sales of the sales of the journal or magazine may make up the cost. However if the example concerned a first year English student, it would be unlikely that the cost could be made up through publishing.

\textsuperscript{143} The argument for fair use in this type of situation is bound up with free speech ideals. However, the necessity of fair use is apparent even when speaking solely in economic terms. Due to New Zealand's
the original. The content owner might object because the user writes a critical review, because the user parodies the original,\(^{144}\) because the author feels that the user recontextualises the original in an offensive way,\(^ {145}\) or because the author simply does not like the user or the user's message.\(^ {146}\) In *Campbell* the Supreme Court forbade employing copyright law to achieve such censorship. It did not, however, expressly rule out using contract law to similar effect.\(^ {147}\) Mass distribution in conventional media does not lend itself to the imposition and enforcement of such anti-criticism contracts. By contrast, in the digital environment content owners have a greater opportunity to restrict access to the content through technology. Moreover, automated rights management technologies makes enforcing those contracts wholly viable from a technical point of view.

Anti-dissemination motives are not in accordance with copyright policy. The copyright marketplace is designed to allow the creator to underwrite adequately the production of the content in question, not to censor downstream uses. The *Campbell* case, illustrates the manner in which anti-dissemination motives are a form of market failure. The rap ground 2 Live Crew approached the owners of the copyright for Roy Orbison's song Pretty Woman. However the license was refused as the parody was not approved of. The same result will occur if the copyright owner had simply asked for a larger amount of money in order to offset any discomfort on his

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\(^{145}\) See, e.g., Dr. Seuss Enterprises v. Penguin Books USA, Inc., 109 F.3d 1394 (9th Cir. 1997). Dr. Seuss objected to defendant's use of elements of *The Cat in the Hat* in a satire, *The Cat Not in the Hat*, the subject of which was the O.J. Simpson trial. The satire included such quips as: "One Knife?/Two Knife?/Red Wife/Dead Wife." Above, 1401.

\(^{146}\) For example, if a writer wished to use a quote from a famous author, yet the owner of the copyright did not agree with the intended audience that the writer was aimed at, for example because it was gay, or a certain race, or a certain sex, or was explicit.
part from the parody of his song. If the use of the original song is worth less that the amount which is being charged for the license, then the use will not go through, and copyright goals suffer. Consequently, it was held that band should receive fair-use treatment.

The Court in *Campbell* did not rule that all parody merits free use. Rather, it held that the parodic character yielded a presumption that a certain degree of appropriation was acceptable. The Court explained that the content owner could protect its typical markets for license of the work. Acuff-Rose could enjoin 2 Live Crew if the band infringed on the market for rap-based derivatives of "Oh, Pretty Woman!" However, Acuff-Rose could not protect the market for which it was unlikely to grant licenses, i.e., fully transformative parodies.

Assumptions that any ability to license will increase efficiency ignore the

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148 Perhaps an analogy to property theory would be appropriate here. Some theorists have described property rights as being similar to sticks in a bundle. See Jeremy Waldron, "From Authors to Copiers: Individual Rights and Social Values in Intellectual Property" (1993) 68 Chicago-Kent L. Rev. 841, 884. ("A land "owner" has certain rights ("sticks") that come with being an owner. He may build on the land, he may live there, or he can mortgage it to secure a loan. But he does not control all the sticks. Rather, they are reserved for society. For instance, he may not use his land in a way that creates nuisances to his neighbours, and he may not erect an unsound structure. He can sell all of these sticks he does control to another person, or he can sell some of them, but he may not bundle the sticks he does not have into a sale of the property.)

The House Report on the US Copyright Act explained a similar phenomenon in the different area of copyright law. In some cases, copying by a non-profit organization might be fair use. However, "[i]t would not be possible for a non-profit institution, by means of contractual arrangements with a commercial copying enterprise, to authorize the enterprise to carry out copying and distribution functions that would be exempt if conducted by the non-profit institution itself." H.R. Rep. No 94-1476, at 74 (1976).

A copyright owner does not have the right to prevent dissemination of her work or to control the use to which others put it. Consequently, she should not import those concerns into a bargain with the result of driving up the price or preventing a transfer altogether. If she does, a court should allow a fair use so as not to stifle the dissemination and productive use of prior works.


150 Above, n 149, 583.
complications that arise when a copyright owner wants to suppress certain uses. Creators only have a monopoly as part of a larger bargain to help create more expressive works. When the copyright owner attempts to control downstream uses, she wields her monopoly power to achieve effects other than those for which it was granted. An unfettered ability to demand a license fee destroys the balance in copyright between users and owners.

The digital environment should not allow copyright owners to import anti-dissemination motives into the digital environment. The digital market does nothing to offset the imperfections these motives generate. The increased efficiency of that market simply cannot force content owners to bargain only in the best interest of overall copyright policy. Anti-dissemination values have no more of a place on-line than they have in the print world. This is another aspect of market failure that the White Paper has failed to consider.

D The Public Access Justification For Fair Use in the Print World

1 The increased importance of the public access justification in the print world

The White Paper’s analysis centres on the market failure justification of fair use. However, there are other justifications explaining its existence. One may view fair use not only as a concession to market failure, but also as a subsidy from the

copyright owner in favour of uses that benefit the public. Fair use should apply where
mechanical enforcement of the copyright holder’s rights would grant the holder
excessive control over non-copyrightable aspects of the work. As Samuelson
states: 152

The notion that fair use rights apply only when no licensing market exists is neither historically
accurate nor good public policy. It ignores some important free speech and related public interest
functions of fair use that the Supreme Court has recognized on numerous occasions.

Finding a rationale for fair use will become an increasingly important issue as
copyright is reviewed due to the impact of digital technologies. Which justification is
preferred will be of great significance. The public access justification is an alternative
rationale for having fair use in the print world. 153 Under this rationale, fair use is an
important device to ensure that information is both widely accessible, and may be
freely communicated to the public. It provides a limit on the rights of copyright

153 Of course, there are many ways to think about fair use and many sets of terminology to
explain its existence. See, e.g., Stephen Breyer, “The Uneasy Case for Copyright: A Study of
Copyright in Books, Photocopying, and Computer Programs”, (1970) 84 Harv. L. Rev. 281
(1970) (using a slightly different type of market argument, Breyer argues that the copyright
monopoly should extend just far enough to pay content creators enough to continue to create,
and no further, with the consequence of allowing as a fair use any use that would fall short of
driving the creator out of the business); Pierre N. Leval, “Toward a Fair Use Standard”,
(1990) 103 Harv. L. Rev. 1105, focusing on the push for increased access and using
decidedly less market-based terminology to explain the transformative benefits of certain
uses); Neil Weinstock Netanel, “Copyright and a Democratic Civil Society”, (1996) 106
Yale L.J. 283, 288, 324-364 (analyzing copyright law and policy in terms of its democracy-
enhancing function: “[C]opyright is in essence a state measure that uses market institutions
to enhance the democratic character of civil society”).

Other commentators disagree with the current copyright framework in a more fundamental way. See L.
examines the historical roots of copyrights and fair use. He argues that fair use arose only as a means of
protecting certain infringing uses by business competitors. Above, 36-40. He posits that application
of fair use to ordinary consumers is wrong because those uses should not constitute infringement in the
first place: “[T]hat an individual consumer’s ordinary use, as by copying it, constitutes infringement is
not just nonsense, it is dangerous nonsense that is wholly contrary to the constitutional purposes of
copyright.” Above, 46.
holders, and helps to maintain a balance between users and holders that is consistent with the underlying goals of copyright law.

In the print world the public access justification of fair use is complemented by the idea-expression dichotomy. The idea-expression dichotomy refers to the fact that the Copyright Act does not protect pure ideas (the focal point of patent law) or facts (always public domain). Rather, it protects the particular way someone chooses to express a given idea.\textsuperscript{154} The copyright framework consequently leaves open the possibility that someone else can also express the idea in a different way. Together, the idea-expression dichotomy and the public access function of fair use are limitations on the rights of copyright holders to control access to their work.

The increased importance of the public access justification in the digital world

It is one of the goals of copyright law to allow the public to have access to copyrighted works. However, in the digital environment access to information is threatened. This is because technological and contractual measures may be employed by copyright holders in order to prevent access to information on the Internet. As copyright holders move to disseminate material online, they will attempt to ensure that usage is governed by contractual terms in private transactions because of the extra protection

\textsuperscript{154} Principles of reverse engineering can apply to traditional works such as literary works when in digital form. The process of research into a particular subject matter requires the browsing, reading and copying of other works, and often the incorporation of some of the ideas contained in those other works into the result of the research. Fair use currently extends to such a process, and thereby encourages new works to be created.
contractual rights will bring. As a result contract law may trump public access and override the traditional idea-expression dichotomy. This has been noted by Ginsburg who states that:

(F)rorn the provider's point of view, contract may therefore prove a more attractive means of obtaining the same, or more, protection than that available under copyright law... However, from the user's point of view, a contract regime, if it eludes user-rights available under copyright, drives a one-sided bargain for access to information, to the detriment of the balancing of rights set forth under copyright.

The idea-expression dichotomy will no longer safeguard the public's access to the material that must be viewed in order to use ideas in new creative ways.

Consequently, copyright holders will gain control over non-copyrightable elements of their work, which is inconsistent with the aims of copyright law.

In light of this, it can be argued that it will be necessary for fair use to take on a larger role to guarantee public access to information. Otherwise the copyright balance will swing too far the way of the copyright owners.

3 The Competition Justification For Fair Use

155 However it should be noted that potential problems may exist under contract and trade practices law when imposing harsh or unreasonable contractual terms in relation to information or copyright material deemed essential to the production of new good.
157 This is the case without getting into any arguments about the distinction between ideas and their expression being too difficult to define for most judges, and arguably being a mere legal fiction See P Drahos “Copyright and Creativity in the Information Society”, <http://www.ozemail.com.au/~cmmusic/cmm/drahos1.html> (last visited 7 August 2000).
158 This paper does not deal with new rights of access created by legislation independent of copyright law.
The importance of fair use in encouraging competition in the print world

A further justification for fair use is the encouragement of competition.

It can be argued that unless there exists certain restrictions and exceptions to the copyright owner's monopoly, then anti-competitive conduct may flourish.\(^{159}\) Fair use encourages competitive activity by allowing for the use of copyright material in the development of new products, and in circumstances where the copyright owner may otherwise wish to restrict or prevent such use. Although there may be situations where trade practices legislation would provide a remedy in cases where, for example, a licence is refused,\(^{160}\) a right of fair use can also assist to ensure that for purposes where the public interest is sufficiently great there is a means of ensuring that access to information will be available. This justification for fair use is illustrated in the cases involving the concept of "reverse engineering".

The process of reverse engineering is one method by which the expression of ideas can be extracted and then re-used in order to produce new goods. The US Court of Appeals in *Sega Enterprises Ltd. v. Accolade, Inc.* ("Sega") the defendant Accolade developed and manufactured video games that could be played on a video game console marketed by plaintiff Sega.\(^{161}\) Sega developed games for the console and sold licenses to other software companies allowing development and production of games that were compatible with Sega's console.\(^{162}\) Without obtaining a license,

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160 For example, the Fair Trading Act 1991.


162 The license included rights to Sega's copyrighted computer game code and the SEGA trademark.
Accolade produced games that were compatible with Sega's console. Accolade's development process required it to reverse engineer several Sega games to discover what was required to make its games compatible with the Sega console.\textsuperscript{163} The games were analysed for their common features and these features were described in a manual. The manual only described the requirements to make the games compatible with the Sega console; it did not list the actual code.

The court held that Accolade's reverse engineering of Sega's games was a fair use. Regarding the purpose and character of the use, the court noted that Accolade's use was commercial, but that the general presumption against a commercial use being a fair use "can be rebutted by the characteristics of a particular commercial use."\textsuperscript{164} In this case, the court considered that the copying done by Accolade was conducted to understand how to make games compatible with the system and not to copy any of Sega's games.\textsuperscript{165} Also, under this factor the court stated that "we are free to consider the public benefit resulting from a particular use notwithstanding the fact that the alleged infringer may gain commercially." The court found the increase in independent games created for the Sega console and the creative effort required for those products were consistent with the intended effect of copyright law.\textsuperscript{166} For the nature of the work, the court discussed the difficulty in classifying computer programs as either an idea, which is not granted copyright protection, or an expression, meaning the expression of the idea, which is granted copyright protection. The court concluded that denying fair use applications of object code would essentially give the creator a "monopoly over the functional aspects of [the]"
work--aspects that were expressly denied copyright protection by Congress.\(^{167}\)

Therefore, this factor also weighed in favour of Accolade.\(^{168}\) The amount copied weighed in favour of Sega because Accolade copied the entire program. However, this factor was given little weight, in light of the fact that Accolade's end product made little use of the copied materials.\(^ {169}\) The Sega court next considered the effect Accolade's copying had on Sega's product market. The court stated that Accolade's games were different from Sega's and, given the nature of the video game market, it would not be unreasonable for a consumer to purchase, for example, a football game produced by each company.\(^ {170}\) The court recognised that Sega may suffer an economic loss from the competition, but characterised the loss as "minor."

Moreover, by furthering creative expression, Accolade's use was consistent with the intent of copyright law.\(^ {171}\) Therefore fair use extends to the process of reverse engineering, and thereby encourages new works to be created, leading to increased competition in the marketplace.

However, in its analysis, the White Paper ignores the competition aspect of the fair use doctrine, choosing instead to view the Sega decision as further support for a market failure justification for fair use.\(^ {172}\) The approach of the White Paper conflicts with the actual facts of the case, and the reasoning of the court. Accolade chose not to pay for a license from Sega, despite the existence of a licensing scheme. Accolade instead decompiled an existing game in order to gain the same information. The court

\(^{166}\) Above, n165, 1523.
\(^{167}\) Above, n165, 1526.
\(^{168}\) Above, n165, 1526.
\(^{169}\) See above n165, 1526-27.
\(^{170}\) See above n165, 1523.
\(^{172}\) White Paper, 255.
found in favour of Accolade. The Sega case places major doubts over the assertion contained in the White Paper that where there is a licensing scheme in place, it will replace fair use. This is because of the court’s finding of fair use, even though a licensing scheme was in place.

The increased importance of encouraging competition in the digital world

Given the power that copyright holders will have to control access to information online through technological and contractual means, the role of fair use to encourage competition will be of even greater importance than it is in the print world. The process of research into a particular subject matter requires the browsing, reading and copying of other works, and often the incorporation of some of the ideas contained in those other works into the result of the research. Fair use currently extends to such a process, and thereby encourages new works to be created. There are no good policy reasons for it not continuing to do so. Hence, the encouragement of competition by fair use will be even more important to materials when in digital form. Again, the White Paper ignores this aspect of fair use.

E The Impact of the DMCA on Fair Use in the Digital World
The Impact of the DMCA on Fair Use in the Digital World

I. The effect of the provisions of the DMCA

The DMCA is inconsistent with the public access and competition justifications of the fair use doctrine. This part argues that although the DMCA does not state that it aims to destroy fair use online, that is precisely the effect its anti-circumvention provisions will have in practice.

The DMCA is a legislative example of a further barrier to public access online. It contains anti-circumvention provisions, which are designed to assist content owners restricting access to their information. These provisions are intended to prohibit users from disabling the mechanisms created to block illegal access or copying. The technological protection provision is split into two sections; first the circumvention of access controls and secondly the circumvention of technological protection which protects a right of the copyright holder. The access control provision is the one which has caused the controversy with regard to technological protection. It provides protection beyond that which is currently protected by copyright law. This is because accessing a work is not an exclusive right of the copyright holder.

The problems involved with the interaction of this provision with the ability to make use of one's rights under the fair use doctrine are twofold. First, if a work is protected by such technological protection (the most popular view of how this is to be done is

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173 For example, music companies are developing digital watermarks which can be placed on digital recordings, to prevent second generation copies from being made.
by control of access by password or encryption), then it will be beyond the knowledge of most ordinary users to defeat such protection, which involves mathematical and computing skills possessed only by those qualified in such fields. Secondly, this being the case, users will have to rely on the existence of manufacturers of circumvention devices, who will most probably face legal challenge from copyright owners, with the onus on them to prove that their devices have a substantial non-infringing use other than unauthorised circumvention, something which may be very difficult to establish. When this provision takes effect, and after the copyrighted protection technologies are in place, access will be significantly impaired. Instead of relying on a fair use defence, the alleged infringer will have to defend himself for violating the DMCA. Although the Act states that it is not intended to affect fair use, by cutting off access it seems that the anti-circumvention provisions are in conflict with fair use.

What has also not been considered is the fact that with new technology, there will come associated new uses, and therefore new fair uses. This is a point which is demonstrated by *Sony Corp v. Universal City Studios Inc.*, which highlighted the new fair use of time-shifting. The case concerned Universal and Disney's objections to the marketing of video cassette recorders (VCR’s). They claimed that the VCR would damage their market in films, as instead of going to the cinema to see their films, the public would copy them off the air when they were shown on television. Sony contended that there was a substantial non-infringing use of the VCR for taping programmes while elsewhere or watching another channel, to be viewed later, known as "time-shifting". The court made a finding of fair use not because the substantial use

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174 17 USC s.1201(a).
175 17 USC s.1201(b).
176 "Nothing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use, under this title." 17 U.S.C. § 1201(c)(1).
of the VCR, time-shifting, did not have any appreciable effect on the market of the plaintiffs. The provision in the DMCA is very broad, and has the ability to prohibit new activities derived from the use of novel technology, which would otherwise be worthy of fair use protection. Thus, it has the potential to give even more wide ranging rights to copyright owners.

The DMCA does make two concessions which are intended to provide for the continued application of fair use. First, the access control provision has been tempered by a clause which delays its implementation for two years. During this time, the Librarian of Congress shall "make the determination ... of whether persons who are users of a copyrighted work are ... adversely affected by the prohibition [of unauthorised access]."\textsuperscript{178} The point of this provision is to ensure that there is a consideration of the way in which the DMCA will affect the public’s ability to use copyright works.

Secondly, the DMCA states that both technological protection provisions are subject to the following provision, which states that: \textsuperscript{179}

\begin{quote}
Nothing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, \textit{including fair use}, under this title. (Emphasis added)
\end{quote}

This provision reaffirms the applicability of fair use even where a copyright work is protected by technological protection. Interestingly enough, the above section is the only section to mention fair use throughout the whole of the DMCA. These two

\textsuperscript{177} 464 U.S. 417 (1984).
\textsuperscript{178} 17 USC s.1201(a)(1)(C).
provisions, although positive in theory, are subject to the findings of the Librarian of Congress, and also the willingness of the courts to interpret the law to allow the act of circumvention or the manufacture of devices whose primary use will be for the exercise of the fair use doctrine.

The anti-circumvention provisions are also subject to seven specific exemptions for situations such as encryption research and law enforcement.\textsuperscript{180}

Despite these minor concessions, the DMCA will have the practical effect of significantly narrowing the scope of fair use on the Internet. The DMCA makes major alterations to the fair use doctrine as it applies online. It can be argued that rather than preserving fair use, the DMCA narrows it from a broader principle to a set of Internet-specific exemptions, which goes against the fair use doctrine contained in the American Copyright Act, which has traditionally been left purposefully wide. Furthermore, the DMCA would, if it were to apply in New Zealand, narrow down the fair use provisions for research and private study. This goes against the general flexibility of the fair use doctrine as recognised by Lord Denning, who stated that it “is impossible to define what is "fair use". It must be a question of degree”.\textsuperscript{181} As Cohen puts it: "as a practical matter, the DMCA will transform the fair use doctrine from a flexible common law safe harbour to a civil law system of narrow, specific exemptions to copyright."\textsuperscript{182}

\textsuperscript{179} DMCA, section 1201(c)(1).
\textsuperscript{180} 17 USC s.1201(d-j).
\textsuperscript{181} Hubbard v. Vosper [1972] 2 QB 84 at 94.
The way in which this narrowing of fair use is achieved is without specific mention of fair use; the DMCA hardly mentions fair use at all. However, the effect of the anti-circumvention provisions is to restrict the fair use exemptions only to situations where the combination of technological protection and anti-circumvention law allow the right to be exercised. For example, in situations where the act itself is not prohibited but the manufacturing of devices needed to perform that act are, then the effect is to prevent the act and therefore, if that act was in the pursuance of a fair use right, to narrow the fair use exemptions.

The main problem with this approach is a lack of flexibility where it has been identified that flexibility is needed for the operation of the doctrine. It also presents problems concerning the "copyright bargain" that fair use is intended to maintain. The criteria of fair use are necessarily set forth in general terms. This has the effect of providing an appropriate balancing of the rights of creators, and the needs of users.

The other concern relating to the use of licensing has not been expressly dealt with in the provisions of the DMCA. The White Paper's argument that fair use will be inapplicable in lieu of licensing, is not specifically addressed in the DMCA. However, the narrowing of the fair use doctrine could mean that licensing will be used in situations which do not fall within the narrow exemptions contained in the DMCA.

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183 DMCA, s1201(c)(1), is the only section which mentions fair use.
184 See P. Samuelson, "The Copyright Grab" (January 1996) Wired, 4.01; http://www.wired.com/wired.archive 4.01 white.paper pr.html, where she argues that the anticircumvention provisions assumed that the American public were all thieves who would make unauthorised copies as a matter of course.
The DMCA represents an overcompensation against piracy in the digital world

The approach of the DMCA appears to typify the attitude of some large copyright owners towards fair use; the prevailing view appears to be that fair use should only apply where there is no economic value in the work in question, and with the potential to be able to bill for even the smallest use of a work, the prevailing attitude is that any use that is not billed for is revenue lost.

The balance in the DMCA is weighted against copyright users, and represents an overcompensation against illegal copying on the Internet. The Working Group has commented that "the ease of infringement and the difficulty of detection and enforcement will cause copyright holders to look to technology, as well as the law, for protection of their works." However, this is an overstatement on the part of the copyright owners and the authors of the White Paper. Although the rights of copyright owners are undoubtedly affected, the proposed alterations to the copyright law more than compensate for such discrepancies.

Because of the precedent-led way in which fair use has developed, there has been an element of flexibility in the operation of fair use (even when codified into statute it was as a list of broad principles). The DMCA and the White Paper will alter this position. If legislation such as the DMCA, or other implementations of the White Paper's recommendations, are passed in New Zealand, fair use will survive into the digital age, but in a lesser form.

186 Pamela Samuelson's quote of Bill Gates' assertion that "you don't need fair use: we'll give you fair use rights when you need them" illustrates this point. See "Does Information Really Want to Be Licensed?" <http://www.sims.berkeley.edu:pam/papers/acm 2B.html.> Last visited 15 August 2000.
188 This is a view shared by those who analogise copyright with other forms of property, and view the copyright "glass" as half full, including the view that fair use results in potential loss on their behalf.
VIII ALTERNATIVES TO THE US APPROACH

A The Copyright Balance Must be Maintained

The interests of users will be compromised on the Internet if the White Paper’s recommendations are followed. It has been contended that a better approach is not to unduly confine the fair use doctrine. Pamela Samuelson, a noted cyberlaw commentator, contends that fair use should be determined by the copyright scheme’s goals rather than solely by publishers’ economic interests.\(^{189}\) She argues that continuity with past precedents is desirable because it provides users with guidance on acceptable norms of behaviour.\(^{190}\) Samuelson advocates a concept of fair use that would allow a means to access information that is not already defined and limited by publishers. Others warn that increased protection for copyright owners would change the Internet into an information toll road or big cyber-mall, just as barren of educational and creative content as the pirate-ridden medium that copyright holders envision.\(^{191}\)

The distribution of knowledge and learning is radically transformed by the Internet,

\(^{190}\) P. Samuelson, above n189.
partly through the ease of access (through "surfing" the Internet and the World Wide Web) and the ability to link previously disparate pieces of information and thus create a new understanding of the way knowledge is formed. The erosion of the dominance of central channels of distribution on the Internet gives users the unprecedented ability and impetus to create new works and thus add to the promotion of knowledge. The Internet's facilitation of cheap, easy, instant, widely dispersed, and decentralized access, publication, and communication is what makes the system so unique and unlike any other traditional media. Thus, users' rights advocates are concerned that overprotection of copyright holders' interests will suppress these essential characteristics and turn the Internet into yet another form of closed, one-sided media, similar to an electronic book.

There are concerns that attempts to control user access through legal or regulatory means could result in excessive restriction that would sharply conflict with rights of individual freedom and the objectives of public education, ultimately subverting copyright's goals of access and dissemination of knowledge. For the Internet to fulfil its potential fair use must be maintained in order to ensure that the public can access information online.

Advocates of users' rights contend that the current improvements in technological obstacles to access could create a situation where access to even public domain material may be functionally blocked by cumbersome licenses and onerous fees. This restriction of access and the corresponding diminution in the opportunity to gain

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knowledge and learning may upset the traditional copyright balance. Supporters of users' rights would encourage a balancing of interests that would give them enough leeway to explore and properly develop the new forms of publishing and creating found on the Internet. There are a variety of means by which this can be achieved.

B  **Fair Use should be Retained in the Digital World**

It is essential that in the current reform process, consideration is given to ensuring that equitable means of access and use of that content is permitted. Current fair use laws go some way towards ensuring that users may access and use copyright material in a print environment, and may have a similar role for information provided via networks. The ability of the public to access information will change in a digital environment. The above analysis shows that the idea/expression dichotomy cannot be relied upon in the digital environment to ensure ideas will always be in the public domain and freely accessible. Being able to use and re-work ideas contained within copyright material involves both access to the material, and the concomitant right to use at least some of what has been accessed. To a large extent, the public interest in the free access to ideas can be maintained through rights of fair use. A right of fair use may be the only legal means of obtaining access to material in digital form without a licence.

C  **Reform Proposals**

1  **Extending the scope of fair use to include the digital environment**

Legislation could be passed as a way of by-passing the *Texaco* and *Princeton* decisions. Some examples of the form such legislation could take are the American
Digital Clarification and Technology Education Bill of 1997\textsuperscript{194} and the Digital Era Copyright Enhancement Bill of 1997.\textsuperscript{195} Both Bills contain provisions dealing with fair use. Both provide that in determining what is fair use, no independent weight is to be given to the means by which the material has been previously performed, displayed, or distributed by the author or the use of technological measures by the author to restrict access to the material. So, if the copyright owner has a licensing scheme in place together with technological restrictions to prevent access to the material, this does not, of itself, indicate that an unauthorised use will not be fair use.\textsuperscript{196} This is one way in which the idea that the ability to license will trump the availability of the fair use defence, can be circumvented.\textsuperscript{197}

2 \textit{Broadening the concept of fair dealing}

The approach that has been suggested by Sir Anthony Mason, in the Commonwealth Law Reform Commission Report on the Reform of Copyright Law\textsuperscript{198}, in regard to the Australian fair use provisions,\textsuperscript{199} is to expand the concept of fair use and model it on the current US provisions. As discussed above, the factors of the US provision are very similar to those in section 43(3) of the New Zealand Act, but instead have general application without the categories that limit the circumstances of fair use under New Zealand law. Excluding the existing categories would have the benefit of allowing fair use to develop on a flexible case-by-case basis, with the judiciary

\textsuperscript{194} Hr 2766.  
\textsuperscript{195} Hr 3048.  
\textsuperscript{197} As was arguably the finding of the American Courts in \textit{Texaco} and \textit{Princeton} according to the White Paper’s interpretation of these decisions.  
\textsuperscript{199} The Australian fair use provisions mirror the New Zealand provisions.
shaping the doctrine in its application to uses of new media.\textsuperscript{200} For example, this could justify distributive uses of copyrighted information given the reliance that will be placed on digital media for receiving and disseminating information. This would seem particularly appropriate in cases where no significant economic harm is suffered by the copyright owner.

3 \textit{Changing fair use to an affirmative right}

It has been suggested that fair use should be changed to have an affirmative effect – i.e. to provide a right for users under copyright law, rather than solely as a defence to infringement. According to this view, rescinding that right in a license should not be possible, even though other rights may, with few exceptions, be waived by agreement. (i.e subjecting mass market licenses to fair use conditions).

4 \textit{Judicial expansion of the fair use doctrine}

Fair use’s analysis could be extended beyond a mere consideration of the copier’s use or the original work’s content, to allow it to focus on the Internet medium itself. As a result, fair use would allow the Copyright Act to continue to provide the same protection to traditional writings, while offering a pocket of special consideration for the Internet. The most likely place to expand the fair use doctrine is the second

consideration, “the nature of the copyrighted work.” Then a copier’s use could be distinguished on how the work is presented to the public. In Central District Court of California in Universal City Studios, Inc. v. Sony Corp. of America the Court focussed on the “free broadcast nature of the copyright owner’s dissemination of their copyrighted television programs.” The court is suggesting that the method by which the copyright holder chose to distribute its work to the public was a relevant consideration under the second factor. Stretching the fair use doctrine in such a way may be a judicially acceptable proposition. Applied to the Internet, this rationale would suggest that any authors who willingly place their copyrighted work on the Internet will be subject to having this action weighed against them in fair use’s second factor determination. Because the five factors in the fair use analysis are to be balanced equally, a copyrighted work’s existence on the Internet will be evaluated along with the other factors, such as publication status and factual-fictional nature. Therefore, the Internet user’s success in the second factor will not automatically guarantee a finding of fair use. The advantage of this proposition is that it allows fair use to place the Internet on both sides of the balancing scale. An author who reaps the benefits of publicity which follow from placing their work on the Internet may be required to give back to the public via fair use’s second factor.

Another way judicial extension could happen is by expanding and adjusting the transformative use doctrine in Campbell v Acuff-Rose Music. The use is transformative if the secondary use adds value to the original material so that the work is transformed in the creation of new information, new aesthetics, new insights, or

accessed 28 July 2000.)

new understandings. These transformative activities as applied to the Internet could include such activities as displaying the work on the Internet and then creating a dialogue about it. To prevent the copyright holder’s economic incentive from being devastated and to maintain the proper balancing of interests, transformative use would still have to be evaluated against the other four factors within traditional fair use analysis.

D The Future of Fair Use Reform in New Zealand

The key issue raised in the debate about the future of fair use on the Internet is whose interests should be served by copyright law online: those of copyright holders or users? Any approach which is chosen has a very difficult balance to achieve. Laws must be stringent enough to cope with the difficulties copyright holders face in the digital environment, but they also need to be fair to copyright users. The US approach favours copyright holders, and threatens to bring about an end to the fair use doctrine, as far as the Internet is concerned. This approach will not further the goals of copyright law. It will lead to public access being impeded, especially for those who cannot afford to pay licensing fees. As a result copyright holders will receive an incentive to create, however, copyright’s goal of the advancement of public knowledge will not be fulfilled.

In the reform process, the public good should be an important consideration. A more balanced approach to fair use is needed than the approach of the White Paper and the
DMCA. Despite any faults, the above reform options are preferable to the US approach as it currently stands.

 IX CONCLUSION

This paper began with a quote from Thomas Jefferson that emphasised the importance of the law keeping pace with technology. The White Paper also starts with this quote, using to proclaim that the Internet has “outgrown” the fair use doctrine. It is submitted that in the rush to amend copyright law to keep up with the Internet, the original goals of the copyright scheme should remain the paramount consideration in any amendments to the law. In the process of amending fair use, the true rationale for the doctrine should be examined carefully. When the justifications of fair use are examined, it is clear that it should have a key role to play in ensuring the current balance between copyright holders and users is maintained. Advancements in technological protection will protect copyrighted works to a greater degree than what exists outside of the Internet; thus, fair use should be used as a counterweight to maintain the appropriate balance between the public and private interests. Whether this occurs in New Zealand will depend to a large degree on the global influence of the current US proposals.

Thomas Jefferson states that it is no more sensible to let the law lag behind technology than it is to “require a man to wear still the coat which fitted him when a boy.” To follow the White Paper approach would be to throw away the “coat” of fair use, leaving copyright users out in the cold, when all that is needed is some alteration.

203 White Paper, 1.