Copyright, Fair Use and the For-Profit Sector

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by James S. Heller

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... What is Fair Use?

INTERPRETING COPYRIGHT LAW IN LIBRARIES IS NOT AN EASY TASK.

Applying the fair use provision (section 107) and the library exemption (section 108) of the Copyright Act to the for-profit sector is particularly difficult. In determining whether a particular activity is permitted as a fair use under the section 108 exemption, one must distinguish between the different types of for-profit institutions. On one hand are copyshops, such as Kinkos, which generate income from making copies. Similar to copyshops are for-profit companies — such as TDI Library Services and Instant Information Systems — whose business is to provide document delivery services for a fee. Then there are companies, such as the Texaco corporation or law firms, whose business is not to make copies, but who instead reproduce copyrighted works only incidentally.

Because they are not libraries, copyshops and fee-based document delivery companies do not qualify for the section 108 library exemption. And because they are in the business of making and distributing copies, it is doubtful that copying they do for their customers could qualify as a fair use. Copyshops and document delivery suppliers, however, are different from companies that do not directly profit from making copies for their customers. A review of selected litigation involving publishers and the for-profit sector sheds light on the application of the fair use doctrine and library exemption in the for-profit sector.

Litigation Involving Copyshops

Publishers took on copyshops in the 1980’s, beginning with a successful lawsuit by Basic Books against the Gnomon Corporation, which operated several stores in the Northeast. Gnomon was enjoined by a Connecticut federal district court from making copies of journal articles and book chapters, putting them together as compilations and selling them.

Two subsequent cases received greater publicity than the Gnomon case, probably because the end-users were university students. In Basic Books, Inc. v. Kinko’s Graphics Corp., the copyshop was sued by several publishers for making photocopies of copyrighted articles and portions of books and compiling them in what are commonly called “coursepacks.” Kinkos maintained that the copying was educational because it was done for students at the request of their instructors. The federal district court disagreed and described the copying as non-educational and commercial. The court concluded that Kinkos was a willful infringer, criticizing its internal policies and procedures and its failure to educate and adequately supervise their employees.

The second case, decided in the 1990s, involved Michigan Document Service, a copyshop in Ann Arbor. In the “MDS” case, a decision by a three-judge panel of the U.S. Court of Appeals for the Sixth Circuit in favor of the copyshop was later reversed by the entire court. Unlike the Kinkos case, the original appeals court panel called MDS’s copying “educational” and held that its producing coursepacks for students at the University of Michigan was a fair use. The entire court reversed and held that MDS’s systematic and premeditated copying for commercial motivation was infringing. (The court also noted that MDS’s copying went beyond what was agreed to in the classroom guidelines envisioned by Congress that were included in the legislative history of the 1976 Copyright Act).

Litigation Involving For-Profit Document Deliverers

In the early 1990s West Publishing Co., a publisher of law books, sued several for-profit information brokers for infringement. One defendant (Aaron-Smith) settled with West and agreed not to copy and distribute the proprietary features from West caselaw reporters, such as headnotes and synopses of the published court decisions. The other defendant, Faxlaw, was enjoined from copying and distributing the proprietary features of West publications.

Litigation Involving Businesses and Corporations for In-House Copying

In the early 1980s, Harper & Row Publishers sued pharmaceutical corporations American Cyanamid and E.R. Squibb for in-house duplication of copyrighted journal articles. Both cases resulted in out-of-court settlements, with each company agreeing to join and pay royalties to the Copyright Clearance Center (CCC), a clearinghouse for the receipt of royalties. Under the Squibb settlement, the parties agreed that Squibb could be excluded from
reporting and paying royalties for up to six percent of their copying, which was considered fair use.

A decade later, newsletter publisher Washington Business Information sued the Collier, Shannon & Scott law firm for making cover-to-cover copies of newsletters and sending them to attorneys throughout the firm. The firm reportedly paid a huge amount of money to the publisher to settle the lawsuit. In 1999, LeBoeuf, Lamb, Greene & MacRae (a large New York-based law firm) purchased a multi-year photocopying license with the CCC and paid an undisclosed settlement to avoid a copyright infringement suit brought by four publishers.

Although the result in each of these cases was similar—a settlement or a judicial decision in favor of the plaintiff publisher—one must distinguish the cases on their facts. In the actions against the pharmaceutical companies and the law firms, the defendants were for-profit entities not in the business of profiting from making in-house copies of copyrighted works. By contrast, the for-profit document deliverers and the copyshops directly profit from making copies of copyrighted works. The section 108 library exemption and the section 107 fair use provision of the Copyright Act should be applied differently to these different types of for-profit companies.

**Fair Use In The For-Profit Sector**

Section 107 provides that:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship or research, is not an infringement of copyright.

In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

The extent to which in-house copying by a company not in the business of generating revenue from making copies may qualify as a fair use takes us to the most important in-house copying case, *American Geophysical Union v. Texaco*. The Association of American Publishers coordinated the lawsuit against Texaco in the name of five publishers. Before trial, the parties stipulated that although Texaco employed hundreds of research scientists (all or most of whom presumably photocopied scientific journal articles to support Texaco research), the trial would focus on activities of one scientist, Dr. Donald H. Chickering II, who photocopied eight articles from the *Journal of Catalysis* and placed them in his files. In 1992 a federal district court held that Texaco’s routing journals to Dr. Chickering, and his subsequent copying articles and filing them away, was not a fair use. Two years later the U.S. Court of Appeals for the Second Circuit upheld the district court decision.

The district court judge spent considerable time examining the first fair use factor—the purpose and character of the use. As for the purpose of the use, the judge wrote that because the defendant was a for-profit company, its copying was “commercial.” As for the character of the use, the judge wrote that the copying was not transformative; Dr. Chickering simply made mechanical photocopies of complete articles for his convenience and there was little evidence that he relied on the articles in conducting later research.

Texaco appealed the lower court decision to the U.S. Court of Appeals. In its examination of the first fair use factor, the appeals court used as guidance a case recently decided by the U.S. Supreme Court, *Campbell v. Acuff-Rose Music*. In *Campbell*, the Supreme Court wrote that when a court looks at the purpose of the use, it must determine whether the use is nonprofit educational, for-profit commercial or something else. As for the character of the use, a court must determine “whether and to what extent it is ‘transformative,’ altering the original with new expression, meaning, or message. The more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.”

The appellate court in *Texaco* struggled with the first fair use factor, trying to determine if Dr. Chickering’s copying was, as the district court concluded, commercial copying. Unlike the district court, the appeals court noted that Texaco did not directly profit from the copying. It concluded that the purpose was neither “for profit” nor “nonprofit educational,” calling it instead an “intermediate” use. As in the district court, the appellate court concluded that the copying was not transformative.

The appellate court also called *Texaco’s* activities “archival”—i.e., done for the primary purpose of providing numerous Texaco scientists with his or her own personal copy of each article without Texaco having to purchase another original journal. Although the court wrote that it did not intend to suggest that *all* archival copying is infringing, it concluded that the first factor tilted against Texaco because “the making of copies to be placed on the shelf in Chickering’s office is part of a systematic process...
of encouraging employee researchers to copy articles so as to multiply available copies while avoiding payment.”

The appeals court concluded its discussion of the first factor by writing:

“On balance, we agree with the district court that the first factor favors the publishers, primarily because the dominant purpose of the use is a systematic institutional policy of multiplying the available number of copies of pertinent copyrighted articles by circulating the journals among employed scientists for them to make copies, thereby serving the same purpose for which additional subscriptions are normally sold, or, as will be discussed, for which photocopying licenses may be obtained.”

The second fair use factor examines the nature of the work copied. Copying informational, scientific or factual works is more favored than copying more creative (or expressive) works such as fiction or poetry. Because the purpose of copyright is to promote the progress of science and the useful arts (in today’s terms, “knowledge”), copying factual, scientific or other scholarly works is more likely to achieve this overarching goal. Both the district and appeals courts characterized the articles in Catalysis as factual in nature and concluded that the second factor favored Texaco.

Texaco lost the third factor in the fair use analysis—the amount copied—in both courts. As a general matter, the more of a work that is copied, the less likely it is that the defendant in a copyright suit will win this factor. We must remember there are two copyrights involved in journal publications. First, the issue of the journal may be copyrighted as a compilation. Second, each journal article is, in itself, a complete copyrightable work. Copying entire articles, as was done by Dr. Chickering, invariably results in the defendant losing this third factor.

The fourth fair use factor examines the effect of the use on the potential market for or value of the copyrighted work. Simply put, courts are more likely to find an infringement when the copyright owner incurs financial harm due to unauthorized (or uncompensated) copying. The fourth factor has an interesting and somewhat complex history, and deserves more comment.

In 1985 the Supreme Court called the fourth factor “undoubtedly the single most important element of fair use.” A decade later in Campbell, the Court wrote that no factor has primacy over any other.

The Campbell Court said much more about the fourth factor that does not bode well for fair use. It wrote that when examining harm to the copyright owner, a court should consider whether the market lost was one contemplated by the copyright owner. This may include the impact on the market for derivative works, such as the market for reprints of a journal article or book chapter and royalty or licensing fees. The Court also noted that courts should examine more than the market impact of the individual defendant’s copying. Rather, they should also consider “whether unrestricted and widespread conduct of the sort engaged in by the defendant...would result in a substantially adverse impact on the potential market for the original.” Both the district and appellate courts in Texaco noted: the publishers lost sales of additional journal subscriptions, back issues and back volumes, as well as licensing revenue and fees; the Copyright Clearance Center makes it easy to pay royalties; and the fourth factor favored the publishers.

The fourth factor also presents another element—which party has the burden of proving that the plaintiff was harmed? One might think that a plaintiff in a copyright suit must carry this burden, but that is not always the case. Recall the first fair use factor—the purpose and character of the use. In Campbell, the Supreme Court wrote that a court should presume harm—and thereby require the defendant to demonstrate that the market for the work copied was not harmed—when there has been verbatim (non-transforming) copying for commercial purposes. In other words, when both the “purpose” and “character” portions of the first factor are held against the defendant—when the copying is both commercial and non-transformative—a court will presume that the plaintiff was harmed by the use. In such cases, the burden shifts to the defendant to prove that the plaintiff was not harmed, a difficult (and probably insurmountable) challenge.

Texaco instructs us that large scale routing of journals to researchers in a for-profit company, and subsequent copying of articles by researchers who filed the copies away (often without even reading them) to create their own personal mini-libraries, is not a fair use. The appeals court concluded that systematic routing of journal articles to company employees, with knowledge that the employees would then copy articles and create personal “libraries,” was beyond that which is permitted under section 107.

So where does this leave us? Remember that fair use is an equitable rule of reason. Whether a particular use is fair, or instead infringing, depends on the particular facts of the case. Failure to purchase as many subscriptions a company really needs—if large-scale copying either by the library or by end users substitutes for subscriptions—is problematic not only in a for-profit company such as Texaco, but also in nonprofit educational institutions.

But the Second Circuit did not say that all copying in for-profit companies is infringing. Although organizations such as the Association of American Publishers and the Copyright Clearance Center might like businesses to think that the holding in Texaco applies to every instance of
commercial copying, that’s simply not the case. The court confined its ruling “to the institutional, systematic, archival multiplication of copies revealed by the record—the precise copying that the parties stipulated should be the basis for the District Court’s decision now on appeal and for which licenses are in fact available”\textsuperscript{16}. But the analysis does not end with section 107; we also must consider the section 108 library exemption.

The Section 108 Library Exemption

Section 108 of the Copyright Act permits libraries to make copies for their patrons under certain circumstances. The legislative history of the Act indicates that the library exemption applies to both the for- and nonprofit sectors\textsuperscript{17}. In addition to permitting some level of in-house copying, section 108 also permits libraries to engage in interlibrary transactions to acquire a copy of a journal article or an excerpt from a book for their institutional patrons, such as students and faculty in a university, corporate researchers or law firm attorneys.

Section 108(d) permits making copies of articles and excerpts from copyrighted works, but there are some basic requirements for qualifying for the section 108 exemption:

- The library may only make or acquire a single copy of an article or excerpt for the patron who requests it; multiple copies are prohibited.
- The copy must become the property of the requestor; the library may not add it to the collection.
- The library must not profit directly or indirectly from the copy; it cannot charge clients more than the copy cost, nor profit in any way from making such copies.
- The copy must include the notice of copyright from the copy reproduced, or if it is not available, a legend that reads that the material copied is subject to the United States copyright law and that further reproduction in violation of that law is prohibited.
- The library must include on its order form, and at the place where orders are accepted, a warning of copyright.
- The library must not be open to the public or to researchers in a specialized field. A library may meet this last requirement if it participates in reciprocal interlibrary lending/document delivery.

Section 108 rights are not unlimited; sections 108(g)(1) and (2) include important restrictions. Subsection (g)(1) provides that a library may not engage in related or concerted reproduction or distribution of multiple copies of the same material, whether made at one time or over a period of time and whether intended for aggregate use by one or more individuals or by individual members of a group. Subsection (g)(2) prohibits a library from engaging in the systematic reproduction or distribution of single or multiple copies.

As noted earlier, Texaco was not decided under section 108; the parties agreed it would be decided on fair use alone. But one thing appears clear: although the library apparently was routing journals to Texaco researchers, it was not making copies for them. Had the library been making multiple copies of the same article for different researchers throughout the corporation, a court might have concluded that the copying was prohibited by the subsection (g)(1) prohibition against “related or concerted” copying. And if the library was making copies of different articles from the same journal title in such quantity that photocopying substitutes for additional subscriptions, the subsection (g)(2) prohibition against systematic copying kicks in.

Whether the nature and level of copying in Texaco would have violated 108(g)(1) or (g)(2) is a matter of speculation. Significantly, the appeals court decision did not emphasize, as did District Court Judge Pierre Leval, the for-profit nature of Texaco. Nor did it make overbroad statements that corporate libraries have few rights under the library exemption. Because Texaco was not a section 108 case, Judge Leval’s statements are dictum—not germane to the issues before the court and not necessary to the holding of the case.

The library exemption permits a library to engage in interlibrary arrangements, but not when the effect is that the library receiving such copies “does so in such aggregate quantities as to substitute for a subscription to or purchase of such work.” The Copyright Act does not specify when a library might be using document delivery as a substitute for a purchase or subscription. For this, the Guidelines for the Proviso of Subsection 108(g)(2), more commonly called the CONTU Guidelines, must be consulted.

In a single year a library should not acquire through interlibrary loan/document delivery (for any article published within five years of the date of the request) more than five such articles from the same journal title. The “Suggestion of 5” does not apply if the library has entered a new subscription to the journal or if it already subscribes to the journal but the requested issue is missing from the collection. Remember that this is a guideline, not an absolute rule. One could certainly reason that more than five copies are permissible when a researcher is working on a short-term, one-time project.

Conclusion

The primary purpose of copyright law, as the U.S. Supreme Court has written, is not to reward creators, but rather to promote the spread of knowledge\textsuperscript{18}. Fair use
decisions are fact-specific. If you have a factual situation just like those in Texaco—large scale systematic copying to create individual research collections for corporate researchers who often do not even use the articles copied—permission or payment of royalties is necessary. But the appeals court did not say that a researcher in a for-profit company could not occasionally copy articles or short excerpts from books. Librarians should not expand the holding in Texaco beyond the facts of that case.

The same is true when the library is making copies under the section 108 library exemption. An institution need not acquire a journal subscription for every employee who might read it. (Most publishers already price institutional library subscriptions considerably higher than individual subscriptions.) A library that qualifies for the library exemption—whether in a nonprofit academic institution or a for-profit company—may, under 108(d), make single copies for employees if it meets the requirements of section 108 and if it does not engage in activities proscribed by subsections 108(g)(1) and (g)(2).

Sections 107 and 108 are for the most part format neutral. If the library can make a photocopy of an article from its collection for a researcher, it should be able to send the partner a digital copy. In an interlibrary transaction, one also should be able to receive a digital copy from another library. Because the copy must become the property of the individual requestor, a library should not retain the digital version in any computer after delivery to the user. Everyone should be aware that licenses to electronic publications have the potential to limit, if not eliminate, section 107 and 108 rights. Therefore, carefully read proposed licensing agreements, and do not agree to terms you cannot live with. Remember that in the print world, fair use and the library exemption remain alive and, although not as hardy as they might have been a generation ago, still kicking.

Footnotes
3. In Addison-Wesley Publishing Co. v. New York University, 1983 Copy.L.Dec. (BNA) para 25,544 NYU, several faculty and a private copysop were sued for creating coursepacks. The parties settled, with NYU agreeing to inform their faculty of NYU's photocopying policies and to encourage them to comply with the "Classroom Guidelines" that are part of the legislative history of the 1976 Copyright Act.
4. Both for-profit and nonprofit organizations should subscribe for as many copies of a newsletter as needed. Although a library may route newsletters, make sure that recipients are not making cover-to-cover copies.
8. Id.
9. The court pointedly distinguished copying at Texaco from copysop copying. It wrote "...our concern here is that the court let the for-profit nature of Texaco's activity weigh against Texaco without differentiating between a direct commercial use and the more indirect relation to commercial activity that occurred here. Texaco was not gaining direct or immediate commercial advantage from the photocopying at issue in this case. Rather, Texaco's photocopying served, at most, to facilitate Chickering's research, which in turn might have led to the development of new products and technology that could have improved Texaco's commercial performance."
10. 60 F.3d 913, 919.