

GOOGLE BOOK SEARCH, TRANSFORMATIVE USE, AND COMMERCIAL INTERMEDIATION: AN ECONOMIC PERSPECTIVE

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17 YALE J.L. & TECH. 283 (2015)

ABSTRACT

This Article examines two important features of many copyright fair use cases: transformative use and commercial intermediation. While the issue of transformative use has arisen in many fair use cases, there is a lack of consistency and clear guidance on the meaning of “transformativeness” and how the degree of transformativeness is to be assessed. Additionally, in analyzing commercial use, courts have largely failed to appreciate the distinctive role played by “commercial intermediaries” in facilitating socially beneficial uses of copyrighted works. This Article advances economically grounded proposals for improving the way in which courts analyze transformative use and commercial intermediation. First, courts should focus on the economic effects of transformation instead of employing a purely conceptual analysis. In particular, courts should ascertain any complementary or substitutive effects as well as the cost and innovative-efficiency implications of the use: the more transformative the use, the more it tends to minimize market harm to the copyright owner and maximize social benefits such as transaction-cost economies and follow-on innovation. Second, courts should view commercial intermediaries favorably insofar as they facilitate educational or other beneficial fair uses of copyrighted works through cost-efficient production or substantial innovative investments. In other words, courts should view the commercial use in context and recognize that commercial uses may nonetheless produce social benefits that substantially outweigh any harm caused to copyright owners. This Article uses the 2013 Google Books decision as a primary case study, supplemented by related cases from the United States and abroad, to illustrate these arguments, concluding

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that the court’s decision to uphold Google’s fair use defense for Google Books is well-supported by the complementary relationship between Google Books and copyrighted books, Google’s substantial investments in promoting productive uses of books through Google Books, and transaction-cost and innovative-incentive considerations.

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INTRODUCTION

“Fair use” is a crucial defense to copyright infringement. As its name suggests, the fair use doctrine strikes a balance between the interests of copyright owners and users by allowing users to make “fair” uses of copyrighted works for free and without the consent of the copyright holder. From the perspectives of competition policy and innovation policy, fair use is an “important competition-facilitating internal mechanism found within [] copyright law” that not only “promotes competition between goods and services that are the subject of, or connected with, the same set of intellectual property rights,” but also “strike[s] a balance between protection of initial innovation and further invention and creativity”.¹

¹ Steve D. Anderman, *The Competition Law/IP ‘Interface’: An Introductory Note*, in *THE INTERFACE BETWEEN INTELLECTUAL PROPERTY RIGHTS AND COMPETITION POLICY* 18 (Steven D. Anderman ed. 2007); Burton Ong, *The Interface Between Intellectual Property Law and Competition Law in*

Given the significant role played by fair use in competition and innovation policy, it is vital that courts make correct decisions on questions of fair use in copyright litigation. The Copyright Act instructs courts to consider four factors in evaluating whether a defendant's use of a copyrighted work is fair use: (1) "the purpose and character of the use"; (2) "the nature of the copyrighted work"; (3) "the amount and substantiality of the portion used"; and (4) "the effect of the use upon the potential market for . . . the copyrighted work."² In practice, the outcome of the fair use analysis is often determined by the first factor, particularly the commerciality and transformativeness of the use. Yet in *Harper & Row Publishers, Inc. v. Nation Enterprises*,³ the Supreme Court remarked that the fourth factor—market effect—"is undoubtedly the single most important element of fair use."⁴ In fact, the first and the fourth factors are closely related. The first factor is ultimately just as significant as the fourth factor because it influences that market effect analysis. Unauthorized commercial use of copyrighted material tends to cause market harm⁵: profits derived from the defendant's commercial

Singapore, in THE INTERFACE BETWEEN INTELLECTUAL PROPERTY RIGHTS AND COMPETITION POLICY 378, 380 (Steven D. Anderman ed. 2007).

² The statute provides in full:

[T]he 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.

17 U.S.C. § 107 (2012).

³ 471 U.S. 539, 566 (1985).

⁴ *Id.*

⁵ There was previously a presumption of market harm in cases of commercial use: a commercial user would bear the burden of disproving market harm, whereas a noncommercial user would not carry such a burden (it would be for the plaintiff to show that the noncommercial use entails market harm). *See, e.g.,* *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 451 (1984); *Princeton Univ. Press v. Michigan Document Services, Inc.*, 99 F.3d 1381, 1385-86 (6th Cir. 1996). However,

exploitation of the plaintiff's work are likely made at the expense of the plaintiff, in that they reflect forgone profits that the plaintiff could have earned but for the defendant's infringement or lack of permission. Such forgone profits could be caused by the defendant's selling infringing copies in direct competition with the plaintiff or may take the form of lost licensing fees that the plaintiff could have charged for the defendant's commercial use. On the other hand, *transformative* use tends to make the defendant's work more of a complement to and less of a substitute for the copyrighted work, thereby reducing market harm (if not producing market benefits) to the plaintiff.⁶ The first factor thus goes a step further than the fourth factor because it can account for the social benefits of transformative uses, which may trump any market harm resulting from such unauthorized use.

Despite its great importance, there is considerable room for improvement in how courts analyze the first fair use factor. While the issue of transformativeness has arisen in many cases, courts lack consistency in how they approach the issue and in how they assess the degree of transformation. Additionally, in analyzing commercial use, courts have largely failed to appreciate the distinctive role played by "commercial intermediaries" in facilitating socially beneficial uses of copyrighted works.

This Article advances two economically grounded recommendations to improve courts' analyses of transformative use and commercial use by commercial intermediaries under the first fair use factor. The economic arguments on transformative use and commercial intermediation proposed here will be examined through the case study of Google Books. Google Books, a groundbreaking undertaking to digitize and upload all existing books for the benefit of Internet users, incited a controversial legal dispute between copyright owners—both publishers and authors—and Google in federal

this presumption has arguably been overruled. *See* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 584-85 (1994); *Authors Guild, Inc. v. Google Inc.*, 954 F. Supp. 2d 282, 292 (S.D.N.Y. 2013); *Cambridge Univ. Press v. Becker*, 863 F. Supp. 2d 1190, 1236 (N.D. Ga. 2012); *Sony BMG Music Entm't v. Tenenbaum*, 672 F. Supp. 2d 217, 227 (D. Mass. 2009).

⁶ *Cf. Campbell*, 510 U.S. at 591 (recognizing that parodies likely will not affect the market for the original work); Thomas F. Cotter, *Transformative Use and Cognizable Harm*, 12 VAND. J. ENT. & TECH. L. 701, 741 (2010) (noting that in some instances, the unauthorized, transformative use of a copyrighted work might increase the property owner's revenue).

district court. In 2013, the court upheld Google Books as a fair use of copyrighted works.⁷ The transformative and commercial aspects of the project's use of copyrighted material are worth exploring from a broader perspective, in light of economic theory and related fair use and fair dealing cases from the United States and abroad.

This Article proceeds in four Parts. Part I presents an overview of the literature on the economics of copyright law and, specifically, the economics of fair use. Part II begins with a legal analysis of “transformative use” and proceeds to advance an economic approach to the issue. It then discusses three types of transformative use—criticism and parody, derivative use, and change of purpose—in order to illustrate the application of an economic approach. Part III offers a unique economic perspective on commercial use and, specifically, “commercial intermediation,” which often serves economically efficient and socially beneficial purposes. The favorable treatment of commercial intermediaries advocated here can be contrasted with the skeptical view of American and Canadian courts toward all commercial uses and their general failure to distinguish commercial intermediation from other commercial uses in a fair use or fair dealing analysis. Part IV describes the Google Books decision, which will then be used as the primary case study for the central arguments advanced in this Article. The Part proceeds to analyze two important aspects of Google Books—transformative use and commercial intermediation—pursuant to the economic approach described earlier. The Article concludes that the court's decision upholding Google Books as a fair use is well-supported by its complementary relationship to copyrighted books, Google's substantial investments in promoting productive uses of books through the project, and transaction-cost and innovative-incentive considerations.

I. Economic Analysis of Copyright and Fair Use

A. *The Economics of Copyright Law*

Economic analysis of law, an approach that has gained significant traction in the United States, enhances the consistency and legitimacy of legal developments.⁸ Copyright law's economic foundation was laid in the Patent and

⁷ *Authors Guild, Inc., v. Google, Inc.*, 954 F. Supp. 2d 282 (S.D.N.Y. 2013).

⁸ WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 10 (2003).

Copyright Clause of United States Constitution, which states that “Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”⁹ Thus, the justification for granting intellectual property rights, including copyright, is the promotion of scientific and artistic progress, rather than simply the compensation of creators for their efforts.¹⁰

Economists and legal scholars have long advocated for an economic approach to copyright law and policy.¹¹ A seminal 1966 article by Robert Hurt and Robert Schuchman invites readers to focus on “the economic rationale of copyright” instead of rights-based rationales such as John Locke’s property theory or Immanuel Kant’s personality theory.¹² As Hurt and Schuchman observe, copyrightable works are characterized by substantial creation costs and minimal reproduction costs.¹³ Absent copyright protection, rivals would be able to reproduce the work cheaply and sell their copies in direct competition with the author (or the author’s publisher). Given the uncontrolled supply of copies, the price of a copy would be so low that the author or first publisher could not recapture its substantial initial expenditure.¹⁴ The long-term effect of permitting such freeriding of creative efforts would be that significantly fewer original works would be created, explaining why copyright is sometimes necessary to provide adequate incentives for literary, artistic and musical creativity.¹⁵ Notwithstanding this basic rationale for copyright, Hurt and Schuchman argue that policymakers should consider

⁹ U.S. CONST. art. I, § 8, cl. 8.

¹⁰ See HERBERT HOVENKAMP ET AL., *IP AND ANTITRUST: AN ANALYSIS OF ANTITRUST PRINCIPLES APPLIED TO INTELLECTUAL PROPERTY LAW* § 1.1 (2d ed. 2014).

¹¹ See Arnold Plant, *The Economic Aspects of Copyright in Books*, 1 *ECONOMICA*, NEW SERIES 167 (1934).

¹² Robert M. Hurt & Robert M. Schuchman, *The Economic Rationale of Copyright*, 56 *AM. ECON. REV.* 421, 421-25, 432 (1966). For a detailed discussion of the differences between the rights-based theories and economic theory of intellectual property rights, see William W. Fisher, *Theories of Intellectual Property*, in *NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY* 168-199 (Stephen Munzer ed. 2001).

¹³ Hurt & Schuchman, *supra* note 12, at 426, 428; see also William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 *J. LEGAL STUD.* 325, 326 (1989).

¹⁴ Hurt & Schuchman, *supra* note 12, at 425-427; see also HOVENKAMP ET AL., *supra* note 10, § 1.1; Landes & Posner, *supra* note 13, at 326 (1989).

¹⁵ Hurt & Schuchman, *supra* note 12, at 425, 426; see also HOVENKAMP ET AL., *supra* note 10, § 1.1.

whether other reward mechanisms (such as the first-mover advantage) would be viable alternatives to copyright protection and the overall welfare effects of copyright law.¹⁶

Building on the previous literature, William Landes and Richard Posner emphasize an access-versus-incentives tradeoff in their scholarship on copyright economics.¹⁷ As they describe:

Copyright protection—the right of the copyright’s owner to prevent others from making copies—trades off the costs of limiting access to a work against the benefits of providing incentives to create the work in the first place. Striking the correct balance between access and incentives is the central problem in copyright law. For copyright law to promote economic efficiency, its principal legal doctrines must, at least approximately, maximize the benefits from creating additional works minus both the losses from limiting access and the costs of administering copyright protection.¹⁸

Therefore, while copyright may have the apparent effect of incentivizing original creations, it also increases the price of access to creative works on which follow-on creations are based, by consequence actually increasing the costs associated with making many literary, artistic, and musical creations.¹⁹ The effects of various copyright principles on incentives and access thus must be evaluated carefully in order to find the optimal reach of copyright for the maximization of creative works in terms of quantity and quality.²⁰ After building an economic model of copyright,²¹ Landes and Posner proceed to apply their theory to assess certain legal principles that define the boundaries of copyright,²² including the legitimacy of separate creation,²³ the idea-expression distinction,²⁴ the protection of

¹⁶ Hurt & Schuchman, *supra* note 12, at 427-432.

¹⁷ LANDES & POSNER, *supra* note 8, at 22; Landes & Posner, *supra* note 13, at 326.

¹⁸ Landes & Posner, *supra* note 13, at 326.

¹⁹ *Id.* at 332, 335.

²⁰ *Id.* at 333, 336, 343.

²¹ *Id.* at 333-44.

²² *Id.* at 344-63.

²³ For the legitimacy of separate creation, see *Sheldon v. MGM Pictures Corp.*, 81 F.2d 49, 54 (2d Cir. 1936) (“[I]f by some magic a man who had never known it were to compose anew Keats’s Ode on a Grecian Urn, he

derivative works,²⁵ the defense of fair use, and copyright duration.²⁶ Their arguments on the fair use defense are explored further below.

B. *The Economics of Fair Use*

Turning to scholarship that specifically addresses the economics of fair use under copyright law, Wendy Gordon's seminal article in the early 1980s is a convenient starting point.²⁷ Gordon considers the fair use defense to be a solution to problems of market failure that courts utilize "to permit uncompensated transfers that are socially desirable but not capable of effectuation through the market."²⁸ As she observed:

Fair use is one label courts use when they approve a user's departure from the market. A useful starting place for analysis of when fair use is appropriate is therefore an identification of when flaws in the market might make reliance on the judiciary's own analysis of social benefit appropriate. . . . [T]here are certain "conditions of perfect competition"—or assumptions about how a proper transactional setting should look—whose failure is particularly likely to trigger in the courts an unwillingness to rely on the owner's market right to achieve dissemination.²⁹

Gordon proposes a three-step analysis of relevant economic considerations that should inform a court's decision as to whether to accept the fair use defense in a particular case. First, the unauthorized user must identify a market failure problem, such as high transaction costs ("the cost of reaching and enforcing bargains")³⁰ or significant positive externalities

would be an 'author,' and, if he copyrighted it, others might not copy that poem, though they might of course copy Keats's."

²⁴ For the idea-expression distinction, see 17 U.S.C. § 102(b) (2012) ("In no case does copyright protection for an original work of authorship extend to any idea . . . , regardless of the form in which it is described, explained, illustrated, or embodied in such work.).

²⁵ The protection of derivative works is provided for under 17 U.S.C. § 103 (2012).

²⁶ For copyright duration, see 17 U.S.C. §§ 301-305 (2012).

²⁷ 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).

²⁸ *Id.* at 1601.

²⁹ *Id.* at 1614.

³⁰ *Id.* at 1628.

(where “the market structure prevents [the user] from being able to capitalize on the [social] benefits to be realized”).³¹ Second, the user must demonstrate that the social benefits flowing from the use exceed the *ex post* market harm to the copyright holder, such that the user’s bid price would have exceeded the copyright holder’s ask price for a welfare-enhancing transaction but for the market failure. Finally, if both market failure and *ex post* overall benefit can be established, the plaintiff must demonstrate that permitting the use would have significantly impaired incentives to create his work and comparable works from an *ex ante* perspective.³²

Landes and Posner similarly argue for a cost-benefit analysis of fair use and analyze four fair use situations from an economic perspective.³³ In the first situation, *A* wants to briefly quote *B*’s work. While this is valuable to *A*, *A* would only do so in reliance on the fair use defense and would not incur significant transaction costs in clearing the copyright with *B*, who would have nothing to lose in any event.³⁴ In the second scenario, a book review briefly quotes the book under review. Not only do reviewers benefit from the fair use defense by “economizing on transaction costs,” but book copyright holders also derive long-term benefit from this “credible form of book advertising” when prior clearance is unnecessary for the reproduction of short book extracts.³⁵ For the third example, parodies, the fair use defense is necessary to prevent the repression of such “a particularly effective form of criticism.”³⁶ Finally, and perhaps most relevant to this article, Landes and Posner analyze the situation of “productive fair use,”³⁷ or transformative fair use³⁸:

A productive use is one that lowers the cost of expression and tends to increase the number of works, while a reproductive one simply increases the number of “copies” of a given work, reduces the gross profits of the author, and reduces the incentives to create works. Not surprisingly, a

³¹ *Id.* at 1631.

³² *Id.* at 1614-47.

³³ Landes & Posner, *supra* note 13, at 357-61; *see also* LANDES & POSNER, *supra* note 8, at 115-23.

³⁴ Landes & Posner, *supra* note 13, at 357.

³⁵ *Id.* at 358-59.

³⁶ *Id.* at 359.

³⁷ *Id.* at 360 (emphasis omitted).

³⁸ LANDES & POSNER, *supra* note 8, at 123.

fair use defense for a productive use is looked on more favorably than such a defense for a reproductive use.³⁹

Parts II and III build on the scholarship of Gordon, Landes, and Posner on the economics of fair use and specifically focuses on the economic analysis of “transformative use” and “commercial use” under the first fair use factor. Regarding “transformative use,” Part II contends that courts should focus on the economic effects, rather than conceptual analysis, of transformation, ascertaining the complementary or substitutive effects as well as cost and innovative-efficiency implications of the use. The more transformative the use, the more it tends to minimize market harm to the copyright owner and maximize social benefits such as transaction-cost economies and follow-on innovation. Regarding “commercial use,” Part III argues that commercial intermediaries—such as Google in the case of Google Books—should be considered favorably by courts when they seek to justify their commercial use by facilitating end consumers’ educational use of copyrighted works through cost-efficient production or substantial innovative investments. Both arguments will be illustrated in Part IV through the case study of Google Books, amongst other relevant fair use and fair dealing cases from the United States and abroad.

II. Transformative Use: An Economic Perspective

In analyzing the first fair use factor—the purpose and character of the defendant’s use—courts typically inquire into whether the use is transformative, apart from whether it is for commercial purposes. Transformative use arguably outweighs commercial use in determining overall fairness, as the Supreme Court indicated in *Campbell v. Acuff-Rose Music, Inc.*⁴⁰:

[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. . . . [When] the second use is transformative, market substitution is at least

³⁹ Landes & Posner, *supra* note 13, at 360.

⁴⁰ 510 U.S. 569 (1994).

less certain, and market harm may not be so readily inferred.⁴¹

The importance of the transformative/nontransformative distinction, as well as the *degree* of transformation, is beyond question. But what exactly do courts mean by the word “transformative”?

To answer this question, the starting point is the test for transformative use suggested in *Campbell*, namely, “whether the new work . . . adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message.”⁴² This test, which focuses on “add[ing] something new” and “altering” the original work, is difficult to reconcile with recent cases in which courts have upheld as transformative the mere replication of the original creation put to an alternative use.⁴³ In *Perfect 10 v. Amazon.com*,⁴⁴ the use of thumbnail images reproduced by Google were deemed “highly transformative.” According to the Court of Appeals for the Ninth Circuit, “[a]lthough an image may have been created originally to serve an entertainment, aesthetic, or informative function, a search engine transforms the image into a pointer directing a user to a source of information,” and hence “provide[s] social benefit by incorporating an original work into a new work, namely, an electronic reference tool.”⁴⁵ In *Bill Graham Archives v. Dorling Kindersley Ltd.*,⁴⁶ the reprinting of concert posters in a rock band’s biography was found to be for the “transformative purpose of enhancing the biographical information . . . a purpose separate and distinct from the original artistic and promotional purpose for which the [posters] were created.”⁴⁷ Recent fair use decisions such as these therefore support a broad definition of “transformation,” including not only transformation of *content*, but also transformation of *function*.⁴⁸ This can be justified if the focus of

⁴¹ *Id.* at 579, 591.

⁴² *Id.* at 579.

⁴³ See MARSHALL A. LEAFFER, UNDERSTANDING COPYRIGHT LAW 491 (5th ed. 2010).

⁴⁴ 508 F.3d 1146 (9th Cir. 2007). Notably, this case was referenced in the court’s fair use analysis of Google Books. *Authors Guild, Inc. v. Google, Inc.*, 954 F. Supp. 2d 282, 291 (S.D.N.Y. 2013).

⁴⁵ 508 F.3d at 1146.

⁴⁶ 448 F.3d 605 (2d Cir. 2006). The court also referenced this case in its discussion of Google Books. *Authors Guild*, 954 F. Supp. 2d at 291.

⁴⁷ 448 F.3d at 610.

⁴⁸ LEAFFER, *supra* note 43, at 491.

a fair use analysis is on the *social benefits* and *market effects* in light of the defendant's alternative use.

But classifying a use as transformative is only the starting point. According to *Campbell*, courts should assess the *degree* of transformation to measure the relative fairness of the defendant's use.⁴⁹ While it is easy to say that, as transformativeness increases, so does the likelihood of fair use,⁵⁰ it is often difficult to gauge the degree of transformation in an actual case. Given the diversity of works under copyright and the variety of ways in which one can use copyrighted works, courts have struggled to identify common parameters for distinguishing more transformative uses from less transformative uses. One possibility is to look at proportions of original and new material, as suggested in the United Kingdom's decision in *Hubbard v. Vosper*⁵¹: "To take long extracts and attach short comments may be unfair[;] [b]ut, short extracts and long comments may be fair."⁵² Notwithstanding that this may be a good test for criticism or review cases, its utility is doubtful in cases of parody (where the original content is modified directly) or mere change of purpose (where there is no added or modified content). Another possible measure is time spent on transformation relative to time spent on creating the original. But time spent may not necessarily translate into socially beneficial creative works that copyright law seeks to promote.⁵³ For example, it may take a

⁴⁹ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 572 (1994).

⁵⁰ *Id.* at 579.

⁵¹ [1972] 2 QB 84.

⁵² *Id.* at 94; *see also* *Johnstone v. Bernard Jones Publications Ltd.* [1938] Ch 599 at 603-604 ("[I]f a defendant published long and important extracts from a plaintiff's work and added to those extracts some brief criticisms upon them, I think the Court would be very ready to arrive at the conclusion that that was not a fair dealing within the section.").

⁵³ *See e.g.*, *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984) ("[Copyright] is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired."); Jason Iuliano, *Is Legal File Sharing Legal? An Analysis of the Berne Three-Step Test*, 16 VA. J.L. & TECH. 464, 482, n.114 (2011) ("The purpose of copyright and related rights is twofold: to encourage a dynamic creative culture, while returning value to creators so that they can lead a dignified economic existence, and to provide widespread, affordable access to content for the public."); Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1109 (1990) ("The copyright law embodies a recognition that creative intellectual activity is vital to the well-being of society. It is a pragmatic measure by which society confers monopoly-exploitation benefits for a limited duration on authors and artists (as it does for inventors), in order to obtain for itself

long time to produce a novel-based film, but the incremental creativity involved is likely minimal if the movie tells the same story as the novel.

Focusing on the *economic effects* of transformation helps solve the difficulty in assessing degree of transformation. Under the economic approach advocated in this Article, the degree is objectively assessed by reference to the social costs and benefits of the transformative use. The more transformative the use, the more it tends to minimize market harm to the copyright owner (note that harm to the owner has the effect of disincentivizing original creation going forward, which is a social cost) and maximize social benefits such as transaction-cost economies and follow-on innovation.⁵⁴ The focus is no longer on content-based, durational, or conceptual analysis of transformation, but on the *actual effects* of transformative use. This approach tightens the link between the first factor (purpose and character of the defendant's use) and the fourth factor (market effect). Judge Posner's suggestion in *Ty, Inc. v. Publications International Ltd.*⁵⁵ is helpful in understanding and assessing the market impact of a transformative use:

[W]e may say that copying that is complementary to the copyrighted work (in the sense that nails are complements of hammers) is fair use, but copying that is a substitute for the copyrighted work (in the sense that nails are substitutes for pegs or screws), or for derivative works from the copyrighted work . . . is not fair use.⁵⁶

In other words, the more transformative the use, the smaller its substitutive effects or the greater its complementary effects on the original work will be. The degree of substitution or complementarity between the original work and the transformative use determines the overall market harm (or benefit) to the copyright owner.

The practical application of this economic approach can be illustrated through three types of transformative use cases. The first type of cases concerns criticism, reviews, and

the intellectual and practical enrichment that results from creative endeavors.”).

⁵⁴ LANDES & POSNER, *supra* note 8, at 122-23.

⁵⁵ 292 F.3d 512 (7th Cir. 2002).

⁵⁶ *Id.* at 517.

parodies. Positive book reviews should be considered an instance of transformative complementary use alongside change of purposes cases (such as Google Books) discussed below.⁵⁷ But what about negative reviews or parodies that expose the subject matter to criticism? In most cases, negative reviews and parodies are neither complements to (they do not increase demand) nor substitutes for (they do not serve demand) the subject matter under criticism.⁵⁸ Negative reviews and parodies have the effect of *impairing* demand for the criticized matter by revealing its weaknesses, but this is very different from the market *substitutive* harm that copyright law guards against.⁵⁹ As Judge Posner explained, “The harm to an author that comes from drawing attention to the *lack* of value of the intellectual property he has created is not the kind of harm that a law intended to encourage the production of intellectual property seeks to prevent.”⁶⁰ In fact, book reviews benefit society by reducing readers’ search costs and directing them to relevant and well-written books.⁶¹ These benefits and the lack of substitutive harm—together with the transaction-cost arguments presented above—support a fair use defense for reviews and parodies.

The second type of cases relates to derivative works. Under American copyright law, a derivative work is defined as “a work based upon one or more preexisting works” and may exist in “any . . . form in which a work may be recast, transformed, or adapted.”⁶² The law further provides that a copyright holder “has the exclusive righ[t] . . . to prepare derivative works based upon the copyrighted work.”⁶³ A derivative work, like a film based on a novel, can be both substitutive of and complementary to the preexisting work.⁶⁴ The definition of “derivative work” above thus suggests that derivative use

⁵⁷ See *infra* Part IV.B.

⁵⁸ *Ty, Inc. v. Publications Int’l Ltd.*, 292 F.3d 512, 517-18 (7th Cir. 2002); 1 KEVIN GARNETT ET AL., *COPINGER AND SKONE JAMES ON COPYRIGHT* § 9-60 (16th ed. 2011); LANDES & POSNER, *supra* note 8, at 117; RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 54 (8th ed. 2011); Landes & Posner, *supra* note 13, at 360.

⁵⁹ *Ty*, 292 F.3d at 518; POSNER, *supra* note 58, at 54.

⁶⁰ POSNER, *supra* note 58, at 54.

⁶¹ *Id.*

⁶² 17 U.S.C. § 101 (2012).

⁶³ *Id.* § 106(2).

⁶⁴ LANDES & POSNER, *supra* note 8, at 109; Cotter, *supra* note 6, at 717-18; Landes & Posner, *supra* note 13, at 354, 360.

would qualify as transformative for fair use purposes.⁶⁵ This view was nevertheless rejected by the Court of Appeals for the Second Circuit in *Castle Rock Entertainment v. Carol Publishing Group*.⁶⁶ As the Second Circuit explained, “[a]lthough derivative works that are subject to the author’s copyright transform an original work into a new mode of presentation, such works—unlike works of fair use—take expression for purposes that are not ‘transformative.’”⁶⁷ The court held that the defendant’s trivia quiz book, *The Seinfeld Aptitude Test*, drew “directly from the *Seinfeld* episodes without substantial alteration” and merely “repackage[d] *Seinfeld* to entertain *Seinfeld* viewers.”⁶⁸ While the lack of material alteration may justify the court’s conclusion on the facts, one may query whether the court’s extreme position that derivative uses are *never* transformative is correct. The Second Circuit’s view was nonetheless supported by Judge Posner in *Ty*, where the judge opined that “copying that is a substitute for . . . derivative works from the copyrighted work . . . is not fair use.”⁶⁹ However, the judge also remarked that “[w]ere control of derivative works not part of a copyright owner’s bundle of rights, it would be clear that [the defendant’s Beanie Baby collectors’ guides] fell on the complement side of the divide and so were sheltered by the fair-use defense.”⁷⁰

Despite Judge Posner’s decision in *Ty*, there is good reason to believe that derivative works that substantially alter the function or substance of the pre-existing work not only are poor substitutes for, but can be good complements to, the preexisting work.⁷¹ In such cases, the primary harm lies in the substitutive effects upon the *derivative work markets* (sales or licensing), rather than upon the preexisting work’s markets. Courts should be careful in setting the limits of derivative work markets over which copyright owners have exclusivity, taking innovation incentive effects into account. It makes little

⁶⁵ *Castle Rock Entm’t v. Carol Pub’g Grp.*, 955 F. Supp. 260, 268 (S.D.N.Y. 1997) (“[A] derivative work, by definition, transforms an original. . . . Where, as here, a work is transformative, the crux of the fair use analysis remains: the Court must proceed with a careful consideration of the remaining three factors, while merely granting defendants an advantage at the outset.” (citations omitted)).

⁶⁶ 150 F.3d 132 (2d Cir. 1998).

⁶⁷ *Id.* at 143.

⁶⁸ *Id.* at 142-43.

⁶⁹ *Ty, Inc. v. Publ’ns Int’l*, 292 F.3d 512, 517 (7th Cir. 2002).

⁷⁰ *Id.* at 518.

⁷¹ *See Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 591 (1994); Cotter, *supra* note 6, at 746.

economic sense to deny the fair use defense to every derivative use of a work: copyright owners should not have an unlimited monopoly over all unlicensed derivative works.⁷² Exclusivity should be limited to derivative works within contemplation when the preexisting work was produced—any protection beyond that would not provide copyright owners with extra innovation incentives.⁷³ On the other hand, rewarding the user for his efforts by accepting his fair use defense helps encourage the creation of substantially transformative derivative works that possibly provide significant social benefits.⁷⁴ To deny the user the protection of fair use, forcing the user to seek a license from (and surrender parts of his profits to) the copyright owner, would only serve to disincentivize follow-on innovation.⁷⁵ The impact would be particularly severe in cases involving significant positive externalities (social benefits that the user fails to internalize by charging the beneficiaries), where the inherent risk of underproduction calls for greater protection of innovation incentives.⁷⁶ There may be close cases where it is difficult to tell whether the copyright owner has contemplated the defendant's work, and where courts have to decide based on rough indications such as the defendant's contribution (in transformation) relative to the plaintiff's contribution (in original creation).⁷⁷

The third type of transformative use cases is “change of purpose” cases, of which *Perfect 10* and *Bill Graham Archives* (discussed above) are examples. The transformative use of books by Google as part of Google Books also falls within this category, and the economic analysis of transformation by

⁷² *Cf.* *Castle Rock Entm't v. Carol Publ'g Grp.*, 150 F.3d 132, 143 n.9 (2d Cir. 1998) (“Indeed, if the secondary work sufficiently transforms the expression of the original work such that the two works cease to be substantially similar, then the secondary work is not a derivative work and, for that matter, does not infringe the copyright of the original work.”).

⁷³ *See* LANDES & POSNER, *supra* note 8, at 110; Cotter, *supra* note 6, at 744; *see also* Shyam Balganesh, *Foreseeability and Copyright Incentives*, 122 HARV. L. REV. 1569, 1603-09 (2009); Christina Bohannon, *Copyright Harm, Foreseeability, and Fair Use*, 85 WASH. U. L. REV. 969, 970, 974, 987 (2007); Landes & Posner, *supra* note 13, at 354.

⁷⁴ *See* LANDES & POSNER, *supra* note 8, at 122-23.

⁷⁵ *See* Cotter, *supra* note 6, at 743.

⁷⁶ *See* LANDES & POSNER, *supra* note 8, at 122; Cotter, *supra* note 6, at 733-35, 741.

⁷⁷ *See* LANDES & POSNER, *supra* note 8, at 122-23; Cotter, *supra* note 6, at 746. In close cases, therefore, courts may have to fall back on conventional indicators of transformation, such as proportions and time spent on creation.

“change of purpose” will be illustrated through that case below.⁷⁸ As further explained in Part III, these cases often involve the complementary, unintended use of copyrighted works that are beneficial, not harmful, to the copyright owner. Recognizing such use as fair use would help overcome transaction costs and preserve innovation incentives on the part of transformative users.

To conclude, “The question for an economist is . . . the impact of the copying on the demand for the original and the potential cost savings and other benefits that are likely to arise” from permitting the transformative use in question.⁷⁹ The economic approach directs courts to focus on common economic considerations, such as complementarity and substitution, transaction costs, innovation incentives, and social benefits, in analyzing different instances of transformative use. This focus would greatly improve the coherence and legitimacy of fair use decisions.

III. **Commercial Intermediation: An Economic Perspective**

The commerciality of an unauthorized use is an important consideration under the first fair use factor and generally undermines a fair use defense.⁸⁰ Yet it need not—and should not—always have that effect. Certain uses by commercial entities may benefit society by creating innovative products or reducing costs. These benefits can render insignificant any harm caused to copyright owners. Uses by Google and other “commercial intermediaries” that further facilitate end consumers’ beneficial, legitimate uses of copyrighted works fall into this category of commercial use. This Part explores the concept of “commercial intermediation” from an economic perspective.

Google Books, which will be examined in more detail in Part IV, is a prime example of a commercial intermediary. There, Google, as a business organization deriving profits from Google Books, was clearly engaging in commercial use of the books.⁸¹ Nevertheless, the court in that case sought to draw a

⁷⁸ See *infra* Part IV.B.

⁷⁹ LANDES & POSNER, *supra* note 8, at 123.

⁸⁰ See *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 562 (1985).

⁸¹ *Authors Guild, Inc. v. Google, Inc.*, 954 F. Supp. 2d 282, 291-92 (S.D.N.Y. 2013).

distinction between direct and indirect commercialization.⁸² According to the judge, “Google does not sell the scans it has made of books” but only “benefit[s] commercially in the sense that users are drawn to the Google websites by the ability to search Google Books.”⁸³ The same distinction has been drawn in reverse engineering cases in the past.⁸⁴ Not every court has attached significance to the “directness” of commercialization, however. For instance, it was stated in *A&M Records v. Napster*⁸⁵ that “[d]irect economic benefit is not required to demonstrate a commercial use,” and that “repeated and exploitative copying of copyrighted works, even if the copies are not offered for sale, may constitute a commercial use.”⁸⁶ The most important issue is simply the distinction between commercial and noncommercial use,⁸⁷ which depends on “whether the user stands to profit from exploitation of the copyrighted material without paying the customary price,” “not whether the sole motive of the use is monetary gain.”⁸⁸ Hence, most courts would have focused on the simple fact that Google profited from its infringement and counted this against the company in their fair use analysis, without considering the degree of commercialism and the noncommercial benefits of Google Books.

Such a rigid approach ignores other considerations of fair use. The statutory provision expressly invites courts to consider “whether [the] use is of a commercial nature or is for nonprofit educational purposes” in analyzing the first fair use factor.⁸⁹ Commercial educational use, such as Google’s use of books to

⁸² *Id.*

⁸³ *Id.*

⁸⁴ *See, e.g., Sega Enterprises Ltd v. Accolade*, 977 F.2d 1510, 1522 (9th Cir. 1992) (“[A]lthough Accolade’s ultimate purpose was the release of Genesis-compatible games for sale, its direct purpose in copying Sega’s code . . . was simply to study the functional requirements for Genesis compatibility so that it could modify existing games and make them usable with the Genesis console”). Accolade’s use was hence “an intermediate one only and thus any commercial ‘exploitation’ was indirect or derivative,” *id.*, and “the commercial aspect of its use can best be described as of minimal significance.” *Id.* at 1523.

⁸⁵ 239 F.3d 1004, 1015 (9th Cir. 2001).

⁸⁶ *Id.* at 1015.

⁸⁷ 17 U.S.C. § 107 explicitly invites courts to consider “whether [the] use is of a commercial nature” under the factor of “purpose and character of the use.”

⁸⁸ *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539, 562 (1985).

⁸⁹ *See supra* note 2.

achieve the educational aims of Google Books,⁹⁰ lies between the extremes of purely commercial use and noncommercial educational use, and deserves special consideration.

This concept of “commercial intermediation” should be recognized in courts’ analyses of fair use. Commercial intermediaries—such as Google in the case of Google Books—play an important role in facilitating educational or other beneficial fair uses of copyrighted works. Specifically, commercial intermediaries may greatly aid the exercise of fair use rights by end users by reducing the cost and thus increasing the frequency at which fair uses are made of copyrighted works, notwithstanding that the intermediaries derive profit from end users in the process of facilitation. Accordingly, in deciding whether the fair use defense applies, courts should look upon commercial uses favorably when they are intended to facilitate end consumers’ beneficial, legitimate uses of copyrighted works.

Unfortunately, courts have not generally viewed commercial intermediation as a distinctive type of commercial use. Google, in providing the Google Books service, stands in a similar position to copyshops that produce coursepacks (bundles of duplicated educational materials) for students. If an individual student reproduces a bundle of materials for private study or research, provided that she copies nonexcessive portions of copyrighted works, this will likely be considered fair use for a nonprofit educational purpose. Should the analysis change if the same bundle of materials is reproduced by a copyshop for the student at a fee? This issue was considered in *Princeton University Press v. Michigan Document Services, Inc.*,⁹¹ where the defendant copyshop’s fair use argument was premised on the idea of commercial intermediation: “[T]he copying at issue . . . would be considered ‘nonprofit educational’ if done by the students or professors themselves,” and the copyshop “can profitably produce multiple copies for less than it would cost the professors or the students to make the same number of copies.”⁹² From an economic perspective, the fact that the same beneficial, educational purpose can be achieved at a lower cost would seem to justify a finding of fair use. However, the Court of Appeals for the Sixth Circuit rejected the copyshop’s defense, emphasizing that “the

⁹⁰ *Authors Guild, Inc. v. Google Inc.*, 954 F. Supp. 2d 282, 292 (S.D.N.Y. 2013).

⁹¹ 99 F.3d 1381 (6th Cir. 1996).

⁹² *Id.* at 1389.

copying . . . was performed on a profit-making basis by a commercial enterprise” and that “courts have . . . properly rejected attempts by for-profit users to stand in the shoes of their customers making nonprofit or noncommercial uses.”⁹³

In dissent, Judge Merritt was nevertheless receptive to the copyshop’s argument:

Our political economy generally encourages the division and specialization of labor. There is no reason why in this instance the law should discourage high schools, colleges, students and professors from hiring the labor of others to make their copies any more than there is a reason to discourage lawyers from hiring paralegals to make copies for clients and courts. The [majority’s] distinction in this case based on the division of labor—who does the copying—is short sighted and unsound economically. . . . The [majority] errs by focusing on the “use” of the materials made by the copyshop in making the copies rather than upon the real user of the materials—the students. Neither the District Court nor [the majority] provides a rationale as to why the copyshops cannot “stand in the shoes” of their customers in making copies for noncommercial, educational purposes where the copying would be fair use if undertaken by the professor or the student personally.⁹⁴

Judge Merritt also emphasized the public right to fair use under copyright law:

⁹³ *Id.* at 1389 (citing WILLIAM F. PATRY, *THE FAIR USE PRIVILEGE IN COPYRIGHT LAW* 420 n.34 (1985)).

⁹⁴ *Princeton Univ. Press v. Michigan Document Services*, 99 F.3d 1381, 1395 (6th Cir. 1996).

Rights of copyright owners are tempered by the rights of the public. . . . The public has the right to make fair use of a copyrighted work and to exercise that right without requesting permission from, or paying any fee to, the copyright holder. The essence of copyright is the promotion of learning—not the enrichment of publishers.⁹⁵

This point was echoed in the well-known Canadian Supreme Court decision *CCH Canadian Ltd v. Law Society of Upper Canada*,⁹⁶ in which Chief Justice McLachlin stated that “[t]he fair dealing exception . . . is a user’s right,” which “should not be given a restrictive interpretation or this could result in the undue restriction of users’ rights.”⁹⁷ *CCH Canadian Ltd.* concerned the “custom photocopy service” of the Great Library of the Law Society of Upper Canada, where library staff photocopied books on demand from patrons.⁹⁸ The Supreme Court, in holding that “the Law Society could rely on the [research] purposes of its patrons to prove that its dealings were fair,”⁹⁹ explained:

When the Great Library staff make copies of the requested cases, statutes, excerpts from legal texts and legal commentary, they do so for the purpose of research Put simply, its custom photocopy service helps to ensure that legal professionals in Ontario can access the materials necessary to conduct the research required to carry on the practice of law. In sum, the Law Society’s custom photocopy service is an integral part of the legal research process¹⁰⁰

This reflects the idea of intermediation: the library, through its photocopy service, facilitated the research of legal professionals, and it would be artificial to separate the purposes of the facilitator and end users. The end users’ purpose *is* the facilitator’s purpose—research. The Canadian Supreme Court also clarified that “the Law Society [could] rely

⁹⁵ *Id.*

⁹⁶ [2004] 1 S.C.R. 339 (Can.).

⁹⁷ *Id.* at 48, 54.

⁹⁸ *Id.* at 47.

⁹⁹ *Id.* at 62.

¹⁰⁰ *Id.* at 64.

on its general practice to establish fair dealing” without the need “to adduce evidence that every patron uses the material provided for in a fair dealing manner.”¹⁰¹

The Canadian Supreme Court was confronted with a similar issue in *Alberta (Education) v. Canadian Copyright Licensing Agency (Access Copyright)*,¹⁰² which concerned schoolteachers who duplicated copyright materials for in-class dissemination.¹⁰³ The court reiterated that “fair dealing is a ‘user’s right,’ and the relevant perspective when considering whether the dealing is for an allowable purpose . . . is that of the user.”¹⁰⁴ In *Alberta Education*, “the teacher’s purpose in providing copies [was] to enable the students to have the material they need for the purpose of studying. The teacher/copier therefore shares a symbiotic purpose with the student/user”¹⁰⁵ This liberal approach to the Canadian defense of fair dealing for research or private study¹⁰⁶ should be contrasted with the narrow scope of the equivalent UK defense,¹⁰⁷ which is *inapplicable* to

[c]opying by a person other than the researcher or student himself . . . if . . . [that] person . . . knows or has reason to believe that it will result in copies of substantially the same material being provided to more than one person at substantially the same time and for substantially the same purpose.¹⁰⁸

A teacher who distributes photocopies of a textbook excerpt to his students surely cannot rely on the United Kingdom defense.¹⁰⁹ The outcome would be the same in New Zealand,¹¹⁰ where the Auckland High Court has clarified that the fair

¹⁰¹ *Id.* at 63.

¹⁰² [2012] 2 S.C.R. 345 (Can.).

¹⁰³ *Id.* at 1 (“The issue in this appeal is whether photocopies made by teachers to distribute to students as part of class instruction can qualify as fair dealing under the *Copyright Act*.”).

¹⁰⁴ *Id.* at 22.

¹⁰⁵ *Id.* at 23.

¹⁰⁶ Copyright Act, R.S.C. 1985, c C-42, § 29 (Can.).

¹⁰⁷ Copyright, Designs and Patents Act 1988, c. 48, § 29 (Eng.) (governing fair dealing for noncommercial research or private study).

¹⁰⁸ *Id.* § 29(3).

¹⁰⁹ LIONEL BENTLY & BRAD SHERMAN, INTELLECTUAL PROPERTY LAW 253-54 (4th ed. 2014); GARNETT ET AL., *supra* note 58, § 9-38.

¹¹⁰ Copyright Act 1994, s 43 (N.Z.).

dealing purpose of research or private study refers to the purpose of “the person doing the copying.”¹¹¹

The Canadian Supreme Court nonetheless emphasized in both cases that the intermediaries (the library and school teachers) did not copy for a commercial purpose. In *CCH Canadian, Ltd.*, the court stressed that “the Law Society [did] not profit from this service” and that its only purpose was to facilitate legal research.¹¹² In *Alberta*, the court acknowledged “the principle that copiers cannot camouflage their own distinct [commercial] purpose by purporting to conflate it with the research or study purposes of the ultimate user.”¹¹³ This reflects the court’s skepticism towards *commercial* intermediation and its adherence to the general view that commercial uses tend to be unfair.

Courts’ hostility to commercial intermediation is unjustified from an economic point of view. Commercialism is certainly a relevant factor, but it must be carefully considered in its context. Courts should adopt a functional or economic perspective of commercial intermediaries and view them as essential facilitators of educational or other legitimate copyright uses. As the Australian Copyright Law Review Committee previously recommended, “[fair] dealings should not exclude activities where a person conducts a dealing on behalf of another on a for-profit basis,” and courts should be allowed to account for “the fact that a person who provided a commercial copying service to students provided such a service on the understanding that the material copied was for the purpose of each student’s own research or study.”¹¹⁴ Take the example, again, of coursepacks. A university department can either internally produce coursepacks for students or outsource production to a copyshop specializing in mass photocopying. Due to constrained resources or the desire to minimize cost, the department may prefer outsourcing to internal production.¹¹⁵

¹¹¹ *CCH Copyright Licensing Ltd. v University of Auckland* [2002] 3 NZLR 76 (HC) at [52] (N.Z.).

¹¹² *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] S.C.R. 339, para. 64 (Can.).

¹¹³ *Alberta v. Canadian Copyright Licensing Agency*, [2012] S.C.R. 345, para. 21 (Can.).

¹¹⁴ *Simplification of the Copyright Act 1968, Part I: Exceptions to the Exclusive Rights of Copyright Owners*, September 1998, COPYRIGHT L. REV. COMMITTEE, §§ 6.98-6.99.

¹¹⁵ Stephanie Overby, *Outsourcing Definition and Solutions*, CIO, http://www.cio.com/article/40380/Outsourcing_Definition_and_Solutions; see also Ronald H. Coase, *The Nature of the Firm*, 4 *ECONOMICA* 386 (1937).

In fact, a copyshop can likely produce coursepacks at a lower cost than the department due to specialization and economies of scale. Outsourcing in this case involves replacing a noncommercial intermediary (the university department) with a commercial intermediary (the copyshop) to save costs. Even if the copyshop raises the price of coursepacks to a level higher than that charged by the university, the price elevation merely results in a wealth transfer (from students to the copyshop) without a consequential output reduction, as students are generally required to purchase teacher-prescribed coursepacks. Society overall benefits from production cost savings attributed to outsourcing to a commercial intermediary.

Commercial intermediation can be defended not only on cost-efficiency grounds, but also on the basis of innovation-incentive considerations. This argument will be illustrated further in Part IV below through greater economic analysis of Google as a commercial intermediary in the case of Google Books.¹¹⁶ There is a need to incentivize commercial entities such as Google to make costly and risky investments that facilitate (by reducing the cost or increasing the frequency of) socially beneficial uses of copyrighted works by end consumers. Their incentives to invest and innovate can be better preserved by placing their commercial use in the context of the noncommercial, beneficial uses that they facilitate and, accordingly, in the fair use category. Adopting an economic approach to commercial intermediation in a fair use analysis therefore helps to promote innovative efficiency.

The main concern about commercialism is its tendency to cause market harm. Indeed, large-scale, unauthorized copying by a commercial undertaking may result in substantial lost sales of copyrighted works or forgone licensing revenue. Nevertheless, whether market harm actually results from commercial use is still a fact-dependent question. In the coursepack context, students are unlikely to purchase the entire book if all they need is one or two chapters,¹¹⁷ and the market for book excerpts (per-page or per-chapter book access) remains underdeveloped.¹¹⁸ Likewise, as will be explained below, individual licensing from a myriad of book rightsholders

¹¹⁶ See *infra* Part IV.C.

¹¹⁷ *Alberta v. Canadian Copyright Licensing Agency*, [2012] S.C.R. 345, para. 36 (Can.).

¹¹⁸ *Cambridge Univ. Press v. Becker*, 863 F. Supp. 2d 1190, 1237-1239, 1243 (N.D. Ga. 2012), *rev'd sub nom.* *Cambridge Univ. Press v. Patton*, 769 F.3d 1232 (11th Cir. 2014).

is not a feasible option for a book digitization project as substantial as Google Books.¹¹⁹ Moreover, courts should carefully balance the community benefits realized by commercial intermediaries against the harm caused to individual copyright owners. Where a commercial intermediary brings significant educational or other benefits to society through its cost-efficient production (for example, of coursepacks) or substantial innovative investments (for example, as with Google Books)¹²⁰, courts should generally be persuaded to uphold the intermediary's fair use defense notwithstanding its commercial nature.

IV. Case Study: Google Books

A. *The Case*

Google Book Search is an ambitious project that began in 2004 when Google set out to digitize all published books for online searching by Internet users.¹²¹ Google obtained books from the largest libraries in the world and digitized them at high speed.¹²² The scanned books were made available online for keyword searching, and Google would display snippets of books containing the searched-for words or phrases.¹²³ Google Books would not provide full access to books, save for those that were out of copyright.¹²⁴ Google's initial plan was to offer search service only, although it started to negotiate with book publishers about selling digitized books through Google Books.¹²⁵

Google Books provides overwhelming educational and knowledge-dissemination benefits, as the Southern District of New York noted in its recent judgment on fair use.¹²⁶ Yet, despite its virtues, Google Books is controversial because Google did not obtain permission from copyright owners before

¹¹⁹ See *infra* Part IV.B.

¹²⁰ See *infra* Part IV.C.

¹²¹ *Authors Guild, Inc. v. Google, Inc. (Authors Guild II)*, 954 F. Supp. 2d 282, 285 (S.D.N.Y. 2013); *Authors Guild, Inc. v. Google, Inc. (Authors Guild I)*, 770 F. Supp. 2d 666, 670 (S.D.N.Y. 2011).

¹²² *Id.*

¹²³ *Authors Guild II*, 954 F. Supp. 2d at 286; *Authors Guild I*, 770 F. Supp. 2d at 670.

¹²⁴ *Authors Guild II*, 954 F. Supp. 2d at 286-287.

¹²⁵ Kelvin H. Kwok, *A Rule of Reason Approach to the Antitrust Issues of the Google Books Settlement*, 10 DEPAUL BUS. L.J. 401, 428 (2011).

¹²⁶ See *infra* note 186 and accompanying text.

scanning the books.¹²⁷ Indeed, the transaction cost of obtaining a license from all rightsholders would have been so high that Google would perhaps not be able to profit from the Google Books service. Hence, the Google Books project could only be feasibly undertaken *without* prior copyright permission. In 2005, book rightsholders, including authors and publishers, commenced an action against Google.¹²⁸ Google relied on fair use as a defense to copyright infringement.¹²⁹ That defense is the subject of the court's decision in late 2013.

Before the court's final ruling, Google attempted to settle with the authors and publishers.¹³⁰ The class action settlement agreement submitted for the court's approval in 2009 put forward a groundbreaking business plan for online sales of books that even included orphan works (books in copyright with untraceable copyright ownership).¹³¹ Under the plan, Google could, amongst other things, "continue to digitize [b]ooks" and "sell online access to individual [b]ooks".¹³² This would include all out-of-print books by default, subject to each copyright owner's right to opt out.¹³³ In-print books would only be included if their rightsholders opted in.¹³⁴ Book sales revenue would be shared between Google and rightsholders on a sixty-three to thirty-seven percent basis, subject to individual re-negotiation.¹³⁵ A Book Rights Registry would be set up to collect sales revenue and to search for orphan work owners.¹³⁶ An orphan work owner who eventually turned up could still collect sales revenue of its book over the past ten years and choose to have the book excluded from Google's distribution scheme.¹³⁷

The court nevertheless decided to reject the proposed settlement in 2011 citing, *inter alia*, copyright and antitrust

¹²⁷ *Authors Guild II*, 954 F. Supp. 2d at 286; *Authors Guild I*, 770 F. Supp. 2d at 670.

¹²⁸ *Authors Guild II*, 954 F. Supp. 2d at 288; *Authors Guild I*, 770 F. Supp. 2d at 670.

¹²⁹ *Authors Guild II*, 954 F. Supp. 2d at 288; *Authors Guild I*, 770 F. Supp. 2d at 671.

¹³⁰ *Authors Guild I*, 770 F. Supp. 2d at 671.

¹³¹ *Id.*; LEAFFER, *supra* note 43, at 231.

¹³² *Authors Guild I*, 770 F. Supp. 2d at 671.

¹³³ *Id.* at 672.

¹³⁴ *Id.*

¹³⁵ *Id.* at 671.

¹³⁶ *Id.* at 671-672.

¹³⁷ *Authors Guild I*, 770 F. Supp. 2d at 672.

concerns.¹³⁸ The primary copyright concern was that an opt-out system would result in involuntary copyright transfers contrary to § 201(e) of the United States Copyright Act.¹³⁹ According to the court, “it is incongruous with the purpose of the copyright laws to place the onus on copyright owners to come forward to protect their rights when Google copied their works without first seeking their permission.”¹⁴⁰

Such a concern might have been exaggerated, as failure to opt out within good time could have been taken as *implied* permission from the copyright owner.¹⁴¹ Besides, it is doubtful whether an owner would have much to lose if it would be entitled to ten years of sales revenue upon eventual appearance. To insist that such a service have on an opt-in system and that Google bargain with individual rightsholders would be hugely inefficient, especially when negotiations with orphan work owners are simply impossible until the owners have been identified. As one commentator observed:

Public policy ought not to be indifferent between default positions, for they matter enormously as a consequential matter. The opt-out nature of the rejected Google Book Search settlement promised to bring millions of more books to the consuming public than would a settlement founded on opt-in. Judge Chin’s invitation to amend the agreement to include only those authors who affirmatively grant permission misses these points entirely, and perversely denies consumers

¹³⁸ *Authors Guild II*, 954 F. Supp. 2d at 288; *Authors Guild I*, 770 F. Supp. 2d at 680-683. This Article only discusses the copyright concerns of the proposed settlement.

¹³⁹ *Authors Guild I*, 770 F. Supp. 2d at 680-682. According to § 201(e):
[w]hen an individual author’s ownership of a copyright, or of any of the exclusive rights under a copyright, has not previously been transferred voluntarily by that individual author, no action by any governmental body or other official or organization purporting to seize, expropriate, transfer, or exercise rights of ownership with respect to the copyright, or any of the exclusive rights under a copyright, shall be given effect under this title, except as provided under title 11.

17 U.S.C. § 201(e) (2012).

¹⁴⁰ *Authors Guild I*, 770 F. Supp. 2d at 682.

¹⁴¹ *Id.* at 682; Alan J. Devlin, *Antitrust as Regulation*, 49 SAN DIEGO L. REV. 823, 864-865 (2012).

access to orphan works that they could otherwise have enjoyed.¹⁴²

The rejection of the class settlement was a missed opportunity to develop a sustainable, pioneering, and gigantic book sales network to the mutual benefit of rightsholders and the public. Nevertheless, in November 2013, the court rendered an important decision in *Authors Guild v. Google, Inc.* upholding Google Book Search, the original book search service provided by Google, under the fair use exception in copyright law.¹⁴³ Below is a brief summary of the court’s reasoning. Parts IV.B and IV.C will examine the transformative and commercial aspects of Google Books in greater detail.

The court began by stating that the four fair use factors—purpose and character of the defendant’s use, nature of the plaintiff’s work, amount taken, and market effect¹⁴⁴—should be “explored and weighed together.”¹⁴⁵ The court considered the distinction between transformative and nontransformative use under the first factor to be a “key consideration” in a fair use analysis.¹⁴⁶ It proceeded to emphasize the “highly transformative” nature of Google Books: by digitizing books for online searching, Google “use[d] words for a different purpose—it use[d] snippets of text to act as pointers directing users to a broad selection of books.”¹⁴⁷ Regarding the commerciality of Google’s use, the court highlighted the fact that Google was not involved in “direct commercialization” of the books, but only profited indirectly from the Internet traffic attributed to the Google Books service.¹⁴⁸ It also stressed the “important educational purposes” of Google Books notwithstanding the profit-making desires of Google¹⁴⁹—an important point to be explored below.¹⁵⁰

Turning to the second factor—nature of the plaintiff’s work—the court noted that the digitized books were published and mostly nonfictional. Both features (published as opposed to

¹⁴² Devlin, *supra* note 141, at 865.

¹⁴³ Before the case was decided, Google settled with the publishers in October 2012. *See Publishers and Google Reach Settlement*, ASS’N OF AM. PUBLISHERS (Oct. 4, 2012), <http://www.publishers.org/press/85>.

¹⁴⁴ *See* 17 U.S.C. § 107 (2012).

¹⁴⁵ *Authors Guild II*, 954 F. Supp. 2d at 290.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.* at 291.

¹⁴⁸ *Id.* at 292.

¹⁴⁹ *Id.*

¹⁵⁰ *See infra* Part IV.C.

unpublished, nonfictional rather than fictional), tended to support a fair use defense. Regarding the third factor—amount taken—Google’s use was clearly substantial *quantitatively*, given that it “scan[ned] the full text of books—the entire books—and it copie[d] verbatim expression.”¹⁵¹ However, the court concluded that a more important consideration was whether the amount taken was *qualitatively* substantial, whether Google’s usage was no more than necessary for attaining the educational benefits of Google Books.¹⁵² As the court observed, it was necessary for Google to digitize the whole book to make it fully searchable online.¹⁵³ The court also stressed that only small parts of a book were shown as search results.

Concerning the fourth factor—market effect—the court dismissed the plaintiffs’ arguments regarding the detrimental effects of Google Books on book sales. First, in light of the rejection of the class settlement, Google’s plan was no longer to sell the books online in competition with vendors through which the rightsholders sold their books. Rather, “Google Books improves books sales” by “provid[ing] convenient links to booksellers to make it easy for a reader to order a book.”¹⁵⁴ Besides, “online browsing in general and Google Books in particular helps readers find [author’s] work, thus increasing their audiences.”¹⁵⁵ The court additionally found it unlikely that users would acquire the whole book by conducting numerous searches on Google Books. The process would be extremely time-consuming, and in any event, the safeguards implemented by Google (such as blacklisting parts of the book) would frustrate users’ attempts to rebuild books from snippets. The court finally referred to the salient benefits of Google Books before ultimately upholding it under the fair use provision.

Although Google Books as it currently exists represents only a *partial* solution to the problem of orphan works, which

¹⁵¹ *Authors Guild II*, 954 F. Supp. 2d at 292.

¹⁵² See GARNETT ET AL., *supra* note 58, § 9-60 (“In most cases there will be a grey area between the threshold of substantial part (below which no infringement occurs in any event) and a use which is so substantial as to be unfair. Here, a useful test may be whether it was necessary to use as much as the defendant did for the relevant purpose.”).

¹⁵³ *Authors Guild II*, 954 F. Supp. 2d at 292 (observing that, because “one of the keys to Google Books is its offering of full-text search of books, full-work reproduction is critical to the functioning of Google Books.”).

¹⁵⁴ *Id.* at 293.

¹⁵⁵ *Id.*

are usually out of print and inaccessible by the public, the court recognized that the service gives old books “new life” by rendering them readily searchable and accessible online.¹⁵⁶ Indeed, Google Books would have been a comprehensive solution to the orphan books problem had the court approved the proposed class settlement. In any event, Google Books, as a private initiative to solve the orphan works problem, remains highly relevant for countries that lack orphan works legislation.¹⁵⁷

The remainder of this Article analyzes the “transformative” and “commercial intermediation” aspects of Google Books from an economic perspective in order to illustrate the Article’s proposed approach to these fair use elements.

B. Economic Analysis of Transformative Use in the Case of Google Books

Google Books is an example of a use that is transformative because it changes *the purpose* of the underlying copyrighted works.¹⁵⁸ Google has simply scanned and displayed books in their existing form, without modifications or additions to their content. Yet, the court found Google Books to be “highly transformative” in nature.¹⁵⁹ It explained:

The use of book text to facilitate search through the display of snippets is transformative. . . . The display of snippets of text for search is similar to the display of thumbnail images of photographs for search or small images of concert posters for reference to past events, as the snippets help users locate books and determine whether they may be of interest.¹⁶⁰

From an economic perspective, putting a copyrighted work to an alternative, unintended use may substantially benefit, rather than harm, the copyright owner. In the case of Google Books, for instance, Google has made *complementary* rather

¹⁵⁶ *Authors Guild II*, 954 F. Supp. 2d at 293.

¹⁵⁷ It is noteworthy that attempts to enact orphan works legislation in the United States have failed miserably. Canada and the European Union have been more successful. *See* Canadian Copyright Act, R.S.C. 1985, c C-42, para. 77; Directive 2012/28/EU, of the European Parliament and of the Council of 25 Oct. 2012 on Certain Permitted Uses of Orphan Works, 2012 O.J. (L 299) 5.

¹⁵⁸ *Authors Guild II*, 954 F. Supp. 2d at 291.

¹⁵⁹ *Id.*

¹⁶⁰ *Id.* (citations omitted).

than substitutive use of the books in question. This is apparent from the court's observation that "Google Books does not supersede or supplant books because it is not a tool to be used to read books."¹⁶¹ This is because "Google Books enhances the sales of books to the benefit of copyright holders" by "help[ing] readers find their work" and "provid[ing] convenient links to booksellers."¹⁶² From an economic point of view, Google Books has a complementary effect similar to positive book reviews that promote and increase the turnover of books.¹⁶³ As Judge Posner observed in *Ty*:

[P]ublishers want their books reviewed and wouldn't want reviews inhibited and degraded by a rule requiring the reviewer to obtain a copyright license from the publisher if he wanted to quote from the book. So, in the absence of a fair-use doctrine, most publishers would disclaim control over the contents of reviews. The doctrine makes such disclaimers unnecessary. It thus economizes on transaction costs.¹⁶⁴

If Google Books indeed benefits the book rightsholders, why not leave Google to negotiate with individual rightsholders with respect to the digitization and online display of books? It appears that Google, which generates significant revenue from Google Books, is a willing licensee, and that rightsholders, who benefit financially from the wider publicity of their books, are willing licensors. But this ignores the problem of transaction costs.¹⁶⁵ It would be exorbitantly costly for Google to strike a licensing agreement with every rightsholder for every book. Google would have to incur overwhelmingly high transaction costs, which would likely exceed the revenue to be derived from Google Books.¹⁶⁶ Hence, denial of the fair use defense would likely have led to discontinuation of the Google Books project, given that licensing is not a feasible option.

¹⁶¹ *Id.*

¹⁶² *Id.* at 293.

¹⁶³ LANDES & POSNER, *supra* note 8, at 117, 121; Landes & Posner, *supra* note 13, at 358-359; POSNER, *supra* note 58, at 54.

¹⁶⁴ *Ty, Inc. v. Publ'ns Int'l Ltd.*, 292 F.3d 512, 517 (7th Cir. 2002). *See also supra* notes 54-61 and accompanying text.

¹⁶⁵ The rest of this paragraph applies the reasoning in LANDES & POSNER, *supra* note 8, at 115-16.

¹⁶⁶ *See infra* note 185 and accompanying text, explaining how transaction costs doomed Microsoft's attempts to undertake a similar project.

It follows from this transaction-cost argument that Google's unauthorized use did not deprive owners of potential licensing revenue. As the Court of Appeals for the Second Circuit made clear in *American Geophysical Union v. Texaco*,¹⁶⁷ while “the impact on potential licensing revenues is a proper subject for consideration in assessing [market effect] [C]ourts have recognized limits on the concept of ‘potential licensing revenues’ by considering only traditional, reasonable, or likely to be developed markets” in the assessment.¹⁶⁸ In the Google Books situation, a potential licensing market would be unlikely to be developed in the presence of excessively high transaction costs, and hence no licensing market harm was caused to the book rightsholders.¹⁶⁹ To take the argument further, “a particular unauthorized use should be considered ‘more fair’ when there is no ready market or means to pay for the use.”¹⁷⁰ More generally, market harm arguments based on forgone licensing revenue can be criticized for their circular nature—as they proceed on the assumption that the user ought to have paid—and should be approached with skepticism.¹⁷¹ Courts should also query whether forgone licensing revenue, if any, will likely discourage the authorship or publication of books going forward.¹⁷²

Even if Google could feasibly transact with individual book rightsholders, “economizing on transaction costs” would still justify the court's decision to uphold Google's fair use defense.¹⁷³ As scholars have argued, “[b]y giving [book] reviewers in effect an automatic royalty-free license, the fair use doctrine avoids the costs of explicit transactions between publishers and reviewers that would yield the identical

¹⁶⁷ 60 F.3d 913 (2d Cir. 1994).

¹⁶⁸ *Id.* at 929-930.

¹⁶⁹ It is noteworthy that the court did not discuss foregone licensing revenue as a type of market harm in its analysis of the fourth fair use factor. *See* Authors Guild, Inc. v. Google, Inc., 954 F. Supp. 2d 282, 292-293 (S.D.N.Y. 2013).

¹⁷⁰ *Texaco*, 60 F.3d at 931.

¹⁷¹ *See id.* at 931; *Cambridge Univ. Press v. Becker*, 863 F. Supp. 2d 1190, 1239 (N.D. Ga. 2012), *rev'd sub nom.* *Cambridge Univ. Press v. Patton*, 769 F.3d 1232 (11th Cir. 2014); *see also* MARY VITORIA ET AL., 1 THE MODERN LAW OF COPYRIGHT AND DESIGNS § 21.47, n.2 (4th ed. 2011) (“[T]he principle of deprivation of potential profit should obviously not be carried too far, or else it proves too much: for any use is one of which the claimant might say that he could have charged the defendant royalties.”).

¹⁷² *Cambridge Univ. Press*, 863 F. Supp. 2d at 1240-1243.

¹⁷³ LANDES & POSNER, *supra* note 8, at 117; *see Ty, Inc. v. Publications Int'l Ltd.*, 292 F.3d 512, 517 (7th Cir. 2002).

outcome.”¹⁷⁴ The same logic applies to Google Books: accepting Google’s fair use defense obviates the need for tedious and costly negotiations between Google and rightsholders, resulting in substantial transaction-cost savings which benefit society. Transferring part of Google’s profits to rightsholders in the form of licensing fees would unlikely incentivize the authorship or publication of more (or better quality) books,¹⁷⁵ but rather disincentivize investment in Google Books and similar projects going forward. The educational and other social benefits of Google Books cannot be overstated.¹⁷⁶

In sum, the complementarity between Google Books and the books it contains, coupled with other economic considerations, such as transaction costs, innovation incentives, and Google Books’ significant social benefits, buttress the court’s decision to approve Google Books as fair transformative use.

C. Economic Analysis of Commercial Intermediation in the Case of Google Books

Regarding Google’s commercial use of the books as part of Google Books, the court made an important point: “[E]ven assuming Google’s principal motivation is profit, the fact is that Google Books serves several important educational purposes.”¹⁷⁷ It was important for the court to recognize the educational aspect of Google Books: the scanned books are ultimately put to educational use by Google Books users, notwithstanding Google Books being a profit-making service. Internet users could not have made educational uses of the books—at least, they could not have done so conveniently by running keyword searches—without the Google Books service. Google, as a commercial intermediary, is facilitating nonprofit educational uses of the books by numerous Internet learners.

Commercial intermediaries such as Google (and, as explained above, copyshops) facilitate the exercise of fair use rights by end users by reducing the cost or increasing the frequency at which fair uses are made of copyrighted works. Despite the fact that such intermediaries derive profit from end users in the process of intermediation—an indirect profit attributed to heavier Internet traffic in the case of Google

¹⁷⁴ LANDES & POSNER, *supra* note 8, at 117.

¹⁷⁵ See *Cambridge Univ. Press*, 863 F. Supp. 2d at 1240-1243.

¹⁷⁶ See *Authors Guild, Inc. v. Google, Inc.*, 954 F. Supp. 2d 282, 293 (S.D.N.Y. 2013).

¹⁷⁷ *Id.* at 292.

Books¹⁷⁸—their “commercial use” should be viewed in the context of fair use facilitation and hence viewed favorably by courts. From an innovative-efficiency perspective, commercial reward stimulates entrepreneurship and creative projects that foster knowledge dissemination, a central objective of copyright law.¹⁷⁹ The Google Books project is one example, as a large-scale, risky educational project that was shouldered by an established business organization. As one commentator noted, Google “spent up to \$100 million digitizing books and took an enormous risk in exposing itself to potentially incalculable damages in the event of established copyright infringement.”¹⁸⁰ The significant commercial risks inherent in such projects could lead to their failure.¹⁸¹ Microsoft terminated a separate book digitization project¹⁸² in 2008, conceding that “commercial considerations played a part in its decision to end the program.”¹⁸³ To deny Google fair use protection for Google Books would discourage Google and other companies from investing in comparably costly and risky educational projects in the future. Without Google’s substantial upfront investment, the remarkable social benefits of Google Books could hardly have become a reality. The need to preserve commercial intermediaries’ innovation incentives, on which society depends for the funding of educational or other beneficial projects of a substantial scale, is yet another justification for more favorable treatment of commercial intermediaries claiming fair use protection.

In situations of *transformative* commercial use such as Google Books, the transformation may greatly reduce market harm to the plaintiff, which, in any event, may be rendered insignificant by the social benefits achieved, hence overtaking commercialism as the dominant consideration.¹⁸⁴ This is

¹⁷⁸ *Id.* at 292.

¹⁷⁹ *Copyright*, STELLENBOSCH U. LIBR. SERV., http://www.lib.sun.ac.za/Library/eng/help/IG_Programme/Plagiarism/Copyright.html (last visited Aug. 28, 2015) (“The purpose of copyright and related rights is twofold: to encourage a dynamic creative culture, while returning value to creators so that they can lead a dignified economic existence, and to *provide widespread, affordable access to content for the public*” (emphasis added)).

¹⁸⁰ Devlin, *supra* note 141, at 863.

¹⁸¹ *See id.* at 854.

¹⁸² Miguel Helft, *Microsoft Will Shut Down Book Search Program*, N.Y. TIMES, May 24, 2008, <http://www.nytimes.com/2008/05/24/technology/24soft.html>.

¹⁸³ *Id.*

¹⁸⁴ *See* Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994); Landes & Posner, *supra* note 13, at 122-23; *supra* Parts II and IV.B.

consistent with the Supreme Court's holding that "[t]he more transformative the new work, the less will be the significance of . . . commercialism,"¹⁸⁵ and explains the court's ruling on the first fair use factor in *Authors Guild*.¹⁸⁶ The *Authors Guild* court was emphatic about the "significant public benefits" brought by Google Books in its decision:

[Google Books] advances the progress of the arts and sciences, while maintaining respectful consideration for the rights of authors and other creative individuals, and without adversely impacting the rights of copyright holders. It has become an invaluable research tool that permits students, teachers, librarians, and others to more efficiently identify and locate books. It has given scholars the ability, for the first time, to conduct full-text searches of tens of millions of books. It preserves books, in particular out-of-print and old books that have been forgotten in the bowels of libraries, and it gives them new life. It facilitates access to books for print-disabled and remote or underserved populations. It generates new audiences and creates new sources of income for authors and publishers. Indeed, all society benefits.¹⁸⁷

Thus, the court's decision in the Google Books case, which appeared to give significant recognition to commercial intermediaries' facilitation of educational or other socially beneficial uses of copyrighted works, is to be much welcomed.

CONCLUSION

This Article critically analyzes, from an economic perspective, the transformative and commercial aspects of fair use of copyrighted works in the context of *Authors Guild v. Google, Inc.*, which found Google Books to be fair use, and related cases. It develops an economic approach to analyze transformative use and commercial intermediation in adjudicating fair use. Economic analysis of transformative use focuses on the complementary and substitutive effects as well as cost and innovative-efficiency implications of the defendant's

¹⁸⁵ *Campbell*, 510 U.S. at 579.

¹⁸⁶ *See* *Authors Guild, Inc. v. Google Inc.*, 954 F. Supp. 2d 282, 290-92 (2013).

¹⁸⁷ *Id.* at 293.

use, instead of focusing on the vague and malleable concept of “transformation.” Meanwhile, economic analysis of commercial intermediaries suggests that courts should give greater recognition to such intermediaries’ role in facilitating the public’s educational or other legitimate uses of copyrighted works via their cost-efficient production or substantial innovative investments. Accordingly, the complementarity between Google Books and books, Google’s substantial investment in developing Google Books, and transaction-cost and innovative-incentive considerations all support the court’s decision to uphold Google’s fair use defense. Hopefully, the proposed economic approach will be of assistance to courts dealing with future copyright cases that concern transformative use or commercial intermediation.