

## *USING FEE SHIFTING TO PROMOTE FAIR USE AND FAIR LICENSING*

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The fair use doctrine seeks to facilitate socially optimal uses of copyrighted material. As a practical matter, however, cumulative creators, such as filmmakers and musicians, are often reluctant to rely on the fair use doctrine because of its inherent uncertainty, the potentially harsh remedies for copyright infringement, and the practical inability to obtain effective preclearance of rights through administrative or judicial channels. They can try to seek a license from the owner of copyright in the underlying work, but that owner has no obligation under existing law to even respond to the cumulative creator's inquiry. Thus, a familiar refrain in professional creative communities is "if in doubt, leave it out."

This article proposes a novel mechanism that would afford a limited, cost-effective process for pre-clearing works, promote fair negotiation over cumulative uses of copyrighted works, and reduce the exposure of cumulative creators from relying on the fair use doctrine in the vast gray area that exists. Under our mechanism, which bears some resemblance to Fed. R. Civ. Pro. 68, a cumulative creator has authority to make a formal offer of settlement to use copyrighted material for a project. If the copyright owner does not respond to the offer, the cumulative creator would be permitted to use the work provisionally by paying the settlement amount into escrow. If the copyright owner rejects the proposed license fee and sues for infringement, the copyright owner will bear the cumulative creator's litigation costs if (1) the court determines that the use of the material qualifies as fair use or (2) in cases where the court determines that the fair use doctrine did not excuse the use but would not enjoin the use under the *eBay v. Mercexchange* equitable balancing test, where the cumulative creator's offer of settlement (the proposed license fee) exceeds the amount of damages that the court determines to be appropriate. In the former case, the escrow amount is returned to the cumulative creator. In the latter case, the copyright owner receives the infringement award from the escrow account and the remainder returns to the cumulative creator. Finally, if the court finds against fair use and that the proposed license fee is below the liability award or if the court enjoins the cumulative work, then the cumulative creator would have to pay the full liability costs and the court would shift attorney fees as it deems appropriate.

Our fair use fee-shifting proposal encourages copyright owners to take settlement offers seriously and negotiate around the fair use doctrine's inherent uncertainties. In so

doing, this mechanism protects the reliance costs of cumulative creators, reduces transaction costs, and discourages hold-out behavior. Overall, our mechanism should enrich cultural production by increasing the use of copyrighted content in follow-on works while fostering markets for cumulative creativity and providing fair compensation to copyright owners of underlying works.