

## Resolving Fair Use Disputes Through Mediation and Early Neutral Evaluation

by Theodore K. Cheng

Uncertainty – about the facts, the law, or both – is a key driver in the voluntary resolution of disputes. And there is perhaps no greater legal uncertainty facing the arts and entertainment fields today than the application of the fair use doctrine to claims of copyright infringement. That doctrine is intended to balance the interests of, on the one hand, those who possess the exclusive rights to reproduce and make derivative works of their copyrighted materials (among other rights) and, on the other hand, those who desire to exercise their First Amendment right to engage in free expression, including limited use of works that otherwise would be deemed infringement under the copyright laws. That is, the fair use doctrine essentially permits limited uses of otherwise copyrighted works without first having to obtain permission or consent from the copyright holder. Common examples of fair use include criticism, commentary, news reporting, research, teaching, and parody.

Historically, the doctrine was rooted in the common law; it is now formally codified at 17 U.S.C. § 107 as a set of four non-exclusive factors: (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. Although seemingly helpful, the application of these factors to any particular circumstance, from a practical point of view, is highly subjective and fact-dependent.

For example, in *SOFA Entertainment, Inc. v. Dodger Productions, Inc.*,<sup>1</sup> the defendant used a seven-second clip from *The Ed Sullivan Show* in the performance of the award-winning Broadway musical *Jersey Boys*. The clip featured Ed Sullivan introducing the popular 1960s musical group The Four Seasons on his show, but not the group's actual performance, which was presented after the showing of the clip by the actors in the musical. In response to the claim of copyright infringement, the defendant moved for summary judgment based upon a fair use defense. In analyzing the factors, the court found, among other things, that (a) the parties had agreed that the musical was an entertaining dramatization of actual events, thus weighing in favor of fair use; (b) the use of the clip was “transformative” because it was being used as a historical reference point, and not just a re-broadcast of the original, thus again weighing in favor of fair use; (c) the defendant's use was commercial in nature, and, thus, weighed against fair use, but was not accorded great weight based upon the transformative nature of the use, the fact that the clip was only seven seconds long, and the lack of any evidence that

the clip was used in the marketing of *Jersey Boys*; (d) the clip was creative, but also newsworthy, thereby weighing slightly in favor of fair use; (e) the clip was not the “heart” of either the television episode or the musical, thus weighing in favor of fair use; and (f) the plaintiff had presented no evidence of any plans to license the clip, and the use of the clip in the musical was not a substitute for the original, thus again weighing in favor of fair use. On balance, the court concluded that the use here was fair and, thus, did not infringe the plaintiff's copyright.

As *SOFA Entertainment* illustrates, a fair use analysis is difficult to conduct without the benefit of full discovery, which is both time-consuming and expensive. Moreover, with respect to the fourth factor (“the effect of the use upon the potential market for or value of the copyrighted work”), expert testimony will likely be required to present evidence of the relevant marketplace. All of this makes summary judgment unlikely except in the clearest of circumstances. At bottom, the application of the fair use factors is a subjective, case-by-case analysis, with no bright-line rules and little in the way of helpful guideposts.<sup>2</sup>

The legal parameters of this doctrine have also been undergoing some upheaval, particularly with respect to the first fair use factor (“the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes”). For example, in *Prince v. Cariou*,<sup>3</sup> the Second Circuit held that Richard Prince's “appropriation art” of Patrick Cariou's copyrighted photographs could constitute fair use. Specifically, the court held that twenty-five of the art works were deemed fair use because they were “new and different” and, thus, “transformative,” in that they “alter[ed] the original with new expression, meaning, or message.” The court also clarified that a work need not comment on the original to qualify as a fair use, finding instead that the critical inquiry was how the work in question appeared to the reasonable observer, not what the artist might say about his or her work. With respect to five other art works, the court remanded the case to the trial court for reconsideration of whether Prince had sufficiently “transformed” the original photographs to constitute fair use. The case thereafter settled.

By contrast, in *Kienitz v. Scottie Nation, LLC*,<sup>4</sup> the Seventh Circuit, while ruling that an alleged infringer's use of a copyrighted photograph constituted fair use, expressed skepticism of the Second Circuit's fair use analysis in *Cariou*, characterizing the approach of “asking exclusively whether something is ‘transformative’” as “not only replac[ing]” the four statutory fair use factors, but also extinguishing an author's right to create derivative works.<sup>5</sup> Others have also similarly criticized the Second Circuit's interpretation and application of the fair use doctrine.<sup>6</sup> Thus,

the precise legal contours of the fair use doctrine remain indeterminate, leaving practitioners, in-house attorneys, and business decision-makers on both sides of a dispute with ample room for debate. With a legal framework in flux, coupled with a highly subjective, fact-specific, and case-by-case inquiry, entrusting the application of the fair use factors to either a jury or a judge at trial creates grave uncertainty and doubt as to the outcome of any fair use dispute.

Here is where mediation and early neutral evaluation – two forms of non-binding alternative dispute resolution – can be of great assistance. A voluntary resolution thrives on uncertainty. Considerations about how a trial court may rule on summary judgment or evidentiary issues at trial; how a jury will assess the credibility of the witnesses who testify; the state of the law at the time when the jury is charged; and what an appellate court may do in reviewing the trial court record all create sufficient uncertainty about the litigation process to serve as strong motivators for a resolution of a dispute of the parties' own making, as opposed to having one imposed upon them.<sup>7</sup> Moreover, direct party-to-party negotiations are difficult to conduct when the factual and legal positions of the parties are subject to a high level of uncertainty, as is the case with the application of the fair use factors.

By providing impartial and realistic feedback on the fair use debate, from both factual and legal perspectives, a mediator can help parties evaluate their best interests while uncovering areas of mutual gain. By the time parties (and their counsel) have formulated their fair use positions, they are usually entrenched and enamored by them.<sup>8</sup> A mediator can try to improve communications between the parties, explore possible alternatives, and address the underlying interests and needs of the parties in hopes of moving them towards a negotiated settlement or other resolution. More specifically, a mediator can help identify the weaknesses in the factual record and the barriers presented by the legal framework relative to the parties' respective arguments on how to apply the various fair use factors. In addition, a mediator with expertise in the copyright laws would minimize the need to have the parties educate the neutral on basic, fundamental fair use principles and case law, thereby further reducing costs. Engaging in this process can help the parties realize the value in an early resolution before enormous time and costs are spent in a protracted litigation or drawn-out negotiations, which are frequently accompanied by the great risk of impasse in the absence of a disinterested, third-party neutral who has no personal or financial stake in the outcome.<sup>9</sup>

Another option is for the parties to jointly retain a third-party trained to conduct an early neutral evaluation of the fair use dispute. Generally, such an evaluation occurs early in the pre-trial stage. A disinterested, third-party neutral – here, preferably one who is well versed with the fair use arena – engages in an independent fact investigation, interviewing the parties, gathering additional information, and then presenting non-binding findings and

recommendations to the parties. Because the neutral has the appropriate subject matter expertise and experience in the field of the dispute, whatever recommendations s/he provides is likely influential on the parties and is meant to help place them on a path to a negotiated agreement. A later step in the process could include having each party (preferably accompanied by their decision-makers) present its claims and defenses to the neutral, describing the principal evidence on which those claims and defenses are based. This step would usually take place after some exchange of information has taken place, and the neutral can assist the parties in that exchange so that the process is mutually beneficial and productive. Such information exchange would typically cost substantially less than full-blown discovery. During the presentations, the role of the neutral is to assess the strengths and weaknesses of the dispute, clarifying and probing the key issues to help the parties assess their respective positions and improve their analyses of the dispute. In doing so, the process encourages direct communication between adversarial parties about their contentions and supporting evidence. Ultimately, the neutral will prepare and submit to the parties a non-binding, written evaluation that outlines what the likely outcome of the dispute will be. This can be particularly significant in situations like a dispute over the application of the fair use factors where the parties may be far part in their views on how the law may apply or what the dispute is worth. The neutral thereafter can provide assistance to the parties' decision-makers in finding some common ground, either resolving the dispute entirely or at least greatly narrowing the disparity between the parties.<sup>10</sup>

In today's legal landscape, uncertainty and fair use seem to go hand in hand. For parties contending with a dispute over the applicability of the fair use doctrine, mediation and early neutral evaluation offer a pair of concrete ways to eliminate the cloud of uncertainty that comes from relying solely on the formal legal process, while reducing both time and expense and finding a mutually acceptable solution.



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**Endnotes**

<sup>1</sup>782 F. Supp. 2d 898 (C.D. Cal. 2010), *aff'd*, 709 F.3d 1273 (9<sup>th</sup> Cir. 2013).

<sup>2</sup>The *Jersey Boys* also spawned a second copyright infringement lawsuit brought in 2007 by the estate of an author who had assisted in the autobiography of one of the members of The Four Seasons, alleging that the musical was a derivative work of the autobiography. The case ultimately went to trial in November 2016, with the jury concluding that there had, in fact, been copyright infringement, and that 10% of the success of the musical was attributable to that infringement. However, the court later overturned the verdict, holding that the conduct in question fell under the fair use doctrine. See *Corbello v. DeVito*, No. 2:08-cv-00867-R CJ-PAL, 2017 U.S. Dist. LEXIS 91164 (D. Nev. June 14, 2017).

<sup>3</sup>714 F.3d 694 (2d Cir. 2013).

<sup>4</sup>766 F.3d 756 (7<sup>th</sup> Cir. 2014).

<sup>5</sup>See also *id.* at 758 (“To say that a new use transforms the work is precisely to say that it is derivative and thus, one might suppose, protected under § 106(2). Cariou and its predecessors in the Second Circuit do not explain how every ‘transformative use’ can be ‘fair use’ without extinguishing the author’s rights under § 106(2).”).

<sup>6</sup>See, e.g., Case Comment, “Second Circuit Holds that Appropriate Artwork Need Not Comment on the Original to be Transformative,” 127 Harv. L. Rev. 1228, 1232 (2014) (“The Cariou court’s rule was not precluded by precedent, but the definition the court adopted is still the broadest of any circuit court yet – and is in direct tension with the statutory definition of derivative works.”); Br. of Amicus Curiae N.Y. Intellectual Prop. L. Ass’n, *Cariou v. Prince*, No. 13-261 (U.S. Sept. 25, 2013) (arguing on petition for a writ of certiorari that Cariou’s fair use analysis did not comport with the fair use statute’s preamble), available at <http://www.nyipla.org/images/nyipla/Documents/Amicus%20Briefs/PatrickCariou%20vRichardPrince13-261.pdf>.

<sup>7</sup>Take, for example, the case brought by the North Jersey Media Group, publisher of *The Record* and the *Herald News*, over the Facebook posting by Fox News of a now-iconic photograph taken by Thomas Franklin of three firefighters raising the American flag at the ruins of the World Trade Center site on the 12-year anniversary of 9/11. In February 2015, the trial court denied Fox News’ motion for summary judgment, rejecting its fair use argument that the posting of the photo was a transformative use. The two companies then apparently reached a tentative settlement, but that deal unraveled, slating the case for a jury trial in early 2016. See, e.g., Eriq Gardner, “Fox News Heads to a Jury Trial to Defend Its Use of 9/11 Photos on Facebook,” *The Hollywood Reporter* (Dec. 22, 2015), available at <http://www.hollywoodreporter.com/thr-esq/fox-news-heads-a-jury-850674>. On the first day of trial, however, the par-

ties reached a confidential settlement. See, e.g., Dominic Patten, “Fox News Settles 9/11 Photo Lawsuit Just Before Trial,” *Deadline* (Feb. 16, 2016), available at <http://deadline.com/2016/02/fox-news-settles-911-photo-lawsuit-thomas-franklins-raising-the-flag-at-ground-zero-1201703269/>.

<sup>8</sup>This entrenchment impairs the judgment and decision-making process, a phenomenon known as “client-think.” See Laura A. Kaster, “Improving Lawyer Judgment By Reducing the Impact of ‘Client-Think,’” *Dispute Resolution Journal*, Vol. 67, No.1 (Feb.-Apr. 2012), available at <http://www.nadn.org/articles/LauraKaster-Sep2012-CLIENT-THINK.pdf>.

<sup>9</sup>See generally Theodore K. Cheng, “Using Alternative Dispute Resolution to Address Your Entertainment Disputes,” *NYSBA EASL Journal*, Vol. 26, No. 1 (Spring 2015), at 17-18.

<sup>10</sup>Wayne D. Brazil, “Early Neutral Evaluation or Mediation? When Might ENE Deliver More Value,” *Dispute Resolution Magazine* (Fall 2007), at 10, available at <http://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=1164&context=facpubs>; Hon. Allan van Gestel, “The Alternative Dispute Resolution Case Evaluator’s Role in Contemplated and Pending Litigation,” *Corporate Law & Accountability Report* (Jan. 30, 2015), available at <http://www.jdsupra.com/legalnews/the-alternative-dispute-resolution-case-81219/>.