

***EBAY'S* EFFECT ON COPYRIGHT INJUNCTIONS: WHEN PROPERTY RULES GIVE WAY TO LIABILITY RULES**

By Jake Phillips

Until recently, intellectual property rights plaintiffs were virtually guaranteed injunctions if they could show either a likelihood of success for preliminary injunctions or a likelihood of continued infringement for permanent injunctions. In 2006, *eBay Inc. v. MercExchange, L.L.C.*¹ changed the landscape of intellectual property remedies by mandating the application of traditional equity principles to determinations of injunctive relief. Although *eBay* specifically addressed permanent injunctions in the patent context, there has been much speculation about how it will affect other areas of intellectual property law. Justice Thomas, writing for a unanimous Court, devoted half a page in his five-page *eBay* opinion to the Copyright Act, analogizing the Copyright Act's language about injunctive relief to the Patent Act.² Specifically, Justice Thomas announced that the Supreme Court "has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed."³

This Note forecasts the likely impact of *eBay* on copyright law by applying a framework of entitlements based on a property rule/liability rule dichotomy. Part I provides background information on injunctive relief, addressing the historical and policy bases for injunctions. It also lays out a utilitarian framework for evaluating when injunctions should be denied. Part II summarizes the Supreme Court's decision in *eBay*. Part III examines *eBay*'s actual impact on copyright law to date, and then offers a paradigm for predicting which kinds of disputes are most likely to be affected by *eBay* in the future. To create this predictive model, the law and economics framework described in Part I is applied to the equitable principles mandated by the *eBay* Court, summarized in Part II. Part IV concludes that *eBay*'s mandate will not affect the outcome in the vast majority of copy-

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1. 547 U.S. 388 (2006).
2. *Id.* at 392-93.
3. *Id.*

right cases. However, in those cases where injunctions would be suboptimal from a social utility perspective, the *eBay* decision could encourage courts to deny injunctive relief in favor of monetary remedies.

I. BACKGROUND

A. Historical Basis for Injunctive Relief in Copyright Law

The origins of injunctive relief trace back to the former courts of equity in England, where disputes were settled according to principles of fairness and conscience rather than strict legal doctrine.⁴ As a result, determinations about whether to grant injunctions are rooted in a balancing of equities whereby courts weigh all the relevant facts and circumstances to decide whether monetary compensation would be sufficient to return a plaintiff to the status quo ante.⁵

The first English codification of copyright law, the Statute of Anne, provided injunctive relief as a remedy for infringement in 1710. In addition to creating an exclusive right for authors in copies of their creative works, the statute provided that infringers “shall Forfeit” any misappropriated works “to the Proprietor or Proprietors of the Copy thereof, who shall forthwith Damask and make Waste-Paper of them”⁶ Although there were also certain penalties associated with infringement, actual monetary damage awards did not become available for most British copyright holders until 1801.⁷ Moreover, the adequacy of remedies at law did not bear on whether the chancery would grant equitable relief.⁸ Rather, history suggests that monetary awards were considered “categorically inadequate” and injunctions were issued as a matter of course upon a finding of infringement.⁹

For the vast majority of modern copyright cases in the United States, courts have continued to presume the inadequacy of legal remedies and

4. 4 JAY DRATLER, JR. & STEPHEN M. MCJOHN, *INTELLECTUAL PROPERTY LAW: COMMERCIAL CREATIVE AND INDUSTRIAL PROPERTY* § 13.01 (2008).

5. *Id.* (“Equity abjures snap decisions in favor of balanced judgments based on complete knowledge of the case.”).

6. Statute of Anne, 1710, 8 Ann., c. 19 (Eng.).

7. H. Tomás Gómez-Arostegui, *What History Teaches Us About Copyright Injunctions and the Inadequate-Remedy-at-Law Requirement*, 81 S. CALIF. L. REV. 1197, 1201 (2008).

8. *Id.* at 1201.

9. *Id.*

automatically award injunctive relief upon a showing of infringement.¹⁰ The 1976 Copyright Act leaves the question of injunctive relief to judicial discretion. It provides that a court “*may*. . . grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement. . . .”¹¹ With such little legislative guidance, most judges look primarily to the case law when deciding whether to grant injunctions,¹² and the case law has predominantly favored injunctive relief.¹³

The Supreme Court, meanwhile, has repeatedly issued opinions stressing that injunctive relief should not be granted automatically.¹⁴ As early as 1908, the Court held that in cases for which “an injunction would be unconscionable . . . the copyright owner should be remitted to his remedy at law.”¹⁵ In 1994, twelve years before *eBay*, Justice Souter admonished in an oft-cited footnote from *Campbell v. Acuff-Rose Music, Inc.* that the goals of copyright law are “not always best served by automatically granting injunctive relief.”¹⁶ The Supreme Court reiterated the point in 2001 when Justice Ginsberg, expressing the majority’s finding of infringement in *New York Times Co., Inc. v. Tasini*, cautioned that “it hardly follows from today’s decision that an injunction . . . must issue.”¹⁷ The circuit courts have recognized these admonitions in some cases,¹⁸ but for the most part they have gone unheeded.¹⁹

10. *See, e.g.*, Nat’l Football League v. McBee & Bruno’s, Inc., 792 F.2d 726, 729 (8th Cir. 1986); Pac. & S. Co., Inc. v. Duncan, 744 F.2d 1490, 1499 (11th Cir. 1984); Superhype Publ’g, Inc. v. Vasiliou, 838 F. Supp. 1220, 1226 (S.D. Ohio 1993).

11. 17 U.S.C. § 502(a) (2006) (emphasis added).

12. Gómez-Arostegui, *supra* note 7, at 1204.

13. DRATLER & MCJOHN, *supra* note 4, § 13.01.

14. *See, e.g.*, N.Y. Times Co. v. Tasini, 533 U.S. 483, 505 (2001); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994).

15. *Dun v. Lumbermen’s Credit Ass’n*, 209 U.S. 20, 23-24 (1908).

16. *Campbell*, 510 U.S. at 578 n.10.

17. *Tasini*, 533 U.S. at 505.

18. *See, e.g.*, Silverstein v. Penguin Putnam, Inc., 368 F.3d 77, 80 (2d Cir. 2004) (“Even if Silverstein’s creative contribution to the selection of Mrs. Parker’s previously uncollected poems is non-trivial, and even if Penguin’s appropriation of it was deliberate, enforcement of his rights by a preliminary or permanent injunction that stops publication of Complete Poems is an abuse of discretion.”); *Boisson v. Banian Ltd.*, 280 F. Supp. 2d 10 (E.D.N.Y. 2003) (holding that low likelihood of future infringement renders injunction unnecessary); *Love v. Kwitny*, 772 F. Supp. 1367, 1375 (S.D.N.Y. 1991) (“When the injurious consequences to [the owner’s] copyright from continued circulation of [the infringing] book are, if anything, ‘trifling,’ no injunction is warranted.”).

19. *See infra* note 122 and accompanying discussion.

B. Policy Basis for Injunctive Relief in Copyright Law

Thomas Jefferson wrote that copyright is not “a natural and exclusive right,” but rather “an encouragement to men to pursue ideas.”²⁰ In keeping with Jefferson’s view, U.S. copyright law is based on the utilitarian theory that granting exclusive rights in creative works will “promote the Progress of Science and useful Arts.”²¹ Accordingly, rewarding authors with property rights enriches the public by encouraging the creation of valuable intellectual works.²²

Injunctive relief for copyright infringement is based on an exclusive rights approach to intellectual property.²³ Because monetary compensation alone would not sustain this approach, the only way to give the exclusive right practical effect is to award injunctions against the violation of exclusivity.²⁴

This section provides an economic framework for injunctive relief in the copyright context. Section I.B.1 examines the incentive theory, efficiency arguments, and the utilitarian justification for exclusive rights. Section I.B.2 provides background on property rules and liability rules, concluding that although property rules are generally favored as the optimal means to protect the exclusive rights of authors, there are occasions when a liability rule is more socially and economically efficient.

1. *The Utilitarian Justification for Injunctive Relief*

Copyright protection, as it exists in the United States, is essentially an economic model designed to maximize societal welfare by promoting artistic progress and enriching the public. According to this incentive theory, lack of compensation would deter many potential authors from creating at all.²⁵ Thus, the number of creative works produced and published would be less than socially optimal if authors were not adequately compensated for their investments of time and money in the creation and publication processes.²⁶ As a result, the public would be deprived of the fruits of the minds of those forced to earn a living some other way. This societal depri-

20. Alex Kozinski & Christopher Newman, *What’s So Fair About Fair Use?*, 46 J. COPYRIGHT SOC’Y U.S.A. 513, 519 (1999) (citing DAVID N. MAYER, THE CONSTITUTIONAL THOUGHT OF THOMAS JEFFERSON 78 (1994)).

21. U.S. CONST. art. I, § 8, cl. 8.

22. Kozinski & Newman, *supra* note 20, at 519.

23. DRATLER & MCJOHN, *supra* note 4.

24. *Id.*

25. ROGER D. BLAIR & THOMAS E. COTTER, INTELLECTUAL PROPERTY: ECONOMIC AND LEGAL DIMENSIONS OF RIGHTS AND REMEDIES 30-31 (2005).

26. *Id.*

vation represents a theoretical market failure that copyright law seeks to remedy. It does this by granting exclusive rights in creative works as a means of achieving “allocational efficiency,” which is realized when rights and resources are distributed so as to maximize societal utility.²⁷

The goal of efficiency dictates that the utilitarian aims of copyright are reached when entitlements, or legal rights to intellectual property, are allocated so as to encourage the maximum amount of creation at the lowest possible cost to the public. Accordingly, the law should protect copyright holders enough to encourage their creative efforts and to ensure that those efforts are shared with the public, but not provide so much protection that the public must pay a higher price for the works than is absolutely necessary to induce their creation.

Utilitarian arguments can only justify equitable relief when the public would be deprived of certain creative contributions without the strong legal protection of an injunction. If copyright holders were denied injunctions following infringement, the resulting damages-only awards would be equivalent to forced judicial licensing, a weaker legal protection than injunctive relief. Such weak protection would likely undermine the reliability and cost effectiveness that provides security for licensing and other copyright transactions.²⁸ The resulting uncertainty, combined with the lack of control over supposedly exclusive rights, would likely weaken the economic incentives for which copyright protection was created. Thus, authors may be less inclined to create if the expected financial yield of their efforts falls below the value they perceive as adequate.²⁹ The corollary is that strong protection for intellectual property in the form of injunctive relief promotes innovation. Excessively broad protection, however, would also lead to suboptimal levels of creation because it deprives the public of new works that build upon earlier ones.³⁰ According to United States District Court Judge Pierre Leval, exclusive rights in creative works that are so broad as to prevent analytical reference to prior works or the building of new ideas out of older ones would “strangle the creative proc-

27. Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 COLUM. L. REV. 2655, 2661 (1994).

28. Richard A. Epstein, *The Property Rights Movement and Intellectual Property: A Response to Peter Menell*, REGULATION MAG., Winter 2008, at 58, 63 (discussing utilitarianism in the context of patents).

29. BLAIR & COTTER, *supra* note 25, at 30-31.

30. *Id.* Note that copyright law provides many exceptions such as the merger doctrine and *scène à faire*, as well as fair use, which attempt to mitigate the inefficiency that results from overprotection.

ess.”³¹ The fair use defense provides some protection against this kind of market failure. For instance, derivative works that are sufficiently transformative, such as parodies, are defensible against infringement claims.³² From a societal welfare maximizing perspective, copyright law should incentivize the creation of any and all derivative works that add original creative value to the public that exceeds the amount taken from the copyright holder.³³

Despite their potential to hinder the creation of derivative works, injunctions can sometimes be useful in forcing the parties to negotiate for a license. However, the threat of an injunction can also be used as undue leverage in licensing negotiations.³⁴ Additionally, injunctions can lead to inefficient holdouts,³⁵ which cause the very market failure copyright law is meant to prevent. In extreme cases, equitable discretion can even give “courts the power to order books burned.”³⁶

Thus, injunctions are not always the optimal remedy from a societal utility-maximizing perspective. However, Congress has provided little guidance about how courts should decide when to deny equitable relief for copyright violations.³⁷ Because each case has a unique set of facts that may or may not justify the kind of strong protection achieved by an injunction, the incentive theory suggests that courts should not adopt a blanket rule. Instead, to achieve optimal utility, courts should engage in a careful case-by-case examination of the factors of each case with an eye towards the most socially desirable outcomes, which the framers of the Constitution intended to encourage when they provided for copyright protection.³⁸

31. Pierre N. Leval, *Toward A Fair Use Standard*, 103 HARV. L. REV. 1105, 1109 (1990).

32. *See, e.g.*, *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994).

33. Kozinski & Newman, *supra* note 20, at 528.

34. Richard Dannay, *Copyright Injunctions and Fair Use: Enter eBay—Four-Factor Fatigue or Four-Factor Freedom?*, 55 J. COPYRIGHT SOC'Y U.S.A. 449, 459 (2008) (referring to *Bill Graham Archives v. Dorling Kindersley, Ltd.*, 448 F.3d 605 (2d Cir. 2006), *aff'g* 386 F. Supp. 2d 324 (S.D.N.Y.)) In *Bill Graham Archives*, the plaintiff insisted on a fee of \$2,500 per image although its typical fee was about \$150 per image, and threatened “the most aggressive action possible” if the “exorbitant” fee was not paid. *Bill Graham Archives*, 386 F. Supp. 2d at 326.

35. *See infra* Section I.B.2.b).

36. Kozinski & Newman, *supra* note 20, at 516 (referring to the injunction, impoundment and destruction ordered in *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 924 F. Supp. 1559 (S.D. Cal. 1996)).

37. *See supra* text accompanying note 11.

38. *See* U.S. CONST. art. I, § 8, cl. 8.

2. *Property Rules vs. Liability Rules in the Copyright Context*

Applying equitable principles to decisions about equitable relief seems axiomatic. Thorough consideration of each case should lead to the most socially desirable outcomes regarding entitlements in creative works. In their seminal 1972 article, Guido Calabresi and A. Douglas Melamed offered a useful framework for analyzing how best to protect and regulate these kinds of legal entitlements.³⁹ According to their theory, entitlements are subject to either a property rule or a liability rule.⁴⁰

A property rule is based on the notion that in order to take an entitlement away from its owner, a buyer must convince the seller to release his rights through a voluntary transaction at a mutually agreed upon price.⁴¹ According to Professor Robert Merges, under a property rule a legal entitlement can only be transferred “after bargaining with the entitlement holder.”⁴² Thus, the price for the use is set *ex ante* since the parties must come to a financial agreement before the would-be infringer can use the entitlement holder’s property.⁴³ A liability rule, on the other hand, depends not on the subjective valuation of the buyer and seller, but on an objective valuation by the state.⁴⁴ Under this rule, one may infringe first and pay later at a price determined by a third party, usually a court.⁴⁵

According to Calabresi and Melamed’s framework of property and liability rules, transaction costs determine whether it is more efficient to set the price by private negotiation or collective valuation.⁴⁶ Low transaction costs make bargaining relatively simple, whereas high transaction costs can be prohibitive to reaching an exchange. Transaction costs generally fall into one of two categories: (1) expenses and barriers to negotiation, such as too many parties at the bargaining table; and (2) the risk that some of the sellers might engage in strategic behavior in order to artificially in-

39. Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

40. *Id.* at 1105. Note that the authors also include a third rule, inalienability, which does “not allow the sale of the property at all” under such circumstance as when “a transaction would create significant externalities.” *Id.* at 1106, 1111. This rule, however, is beyond the scope of the discussion of copyright entitlements in this Note.

41. *Id.* at 1092. According to this rule, the subjective valuation by the copyright owner and the license seeker are the only valuations that matter because “once the original entitlement is decided upon, the state does not try to decide its value.”

42. Merges, *supra* note 27, at 2655.

43. *Id.*

44. Calabresi & Melamed, *supra* note 39, at 1092.

45. Merges, *supra* note 27, at 2655.

46. Calabresi & Melamed, *supra* note 39, at 1106.

flate the price.⁴⁷ The extent and nature of these transaction costs in each particular case should weigh heavily in the determination of whether, upon a finding of infringement, a copyright owner is entitled to injunctive relief via a strong property rule or merely a damages award via a liability rule.⁴⁸

a) Copyright Generally Favors Property Rules

Property rules generally lead to more optimal outcomes than liability rules when transaction costs are low.⁴⁹ That is, when there are minimal barriers and expenses to negotiation and the risk of strategic behavior is low, private negotiations promote efficiency.⁵⁰ This occurs because each of the interested parties has a seat at the bargaining table.⁵¹

Copyright transactions frequently involve a relatively small number of parties, often just the buyer and the seller of the entitlement, so many scholars argue that intellectual property rights favor a property rule approach.⁵² Moreover, if the other costs of transacting are generally low, then the parties are better equipped to determine the price for the exchange than are courts.⁵³ Thus, property rules have tended to dominate copyright law despite certain statutory exceptions, such as those that provide for compulsory licensing,⁵⁴ limitations on exclusive rights,⁵⁵ and affirmative defenses such as fair use.⁵⁶

47. Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 786 (2007).

48. Merges, *supra* note 27, at 2664.

49. See BLAIR & COTTER, *supra* note 25, at 41.

50. Merges, *supra* note 27, at 2664

51. *Id.*

52. See, e.g., *id.*

53. See, e.g., *id.*; see also BLAIR & COTTER, *supra* note 25, at 39.

54. See 17 U.S.C. §§ 104A(d)(3), 104A(h)(6), 111(c), 114(d)(2), 114(f) (2006); but see BLAIR & COTTER, *supra* note 25, at 40 n.105 (arguing that compulsory licensing schemes are suboptimal because they are subject to “legislative lock-in,” making them highly inflexible to change since interested parties can lobby Congress to veto any changes in the existing licensing scheme) (citing Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CALIF. L. REV. 1293, 1296 (1996)).

55. For example, the first sale doctrine, codified by 17 U.S.C. § 109(a) (2006), limits the copyright holder’s distribution right by entitling “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner . . . to sell or otherwise dispose of the possession of that copy or phonorecord.” Similarly, 17 U.S.C. § 108 (2006) provides a limitation on the copyright holder’s exclusive rights by permitting reproduction by libraries and archives. The copyright holder’s public display right is limited by 17 U.S.C. § 109(c) (2006), which provides that “the owner of a particular copy lawfully made under this title, or any person authorized by such owner is entitled, without the authority of the copyright owner, to display that copy publicly,

The preference for property rules has led courts to grant injunctive relief almost as a matter of course upon proof of copyright infringement.⁵⁷ The benefit of an injunction is to leave licensing negotiations up to the individual parties, with the power in the hands of the copyright owner. By contrast, a damages-only remedy is the equivalent of third-party price determination, which is the hallmark of a liability rule. According to Professor Merges, this form of judicial licensing effectively “place[s] a ceiling on the amount the right holder can collect.”⁵⁸ If courts set the ceiling too low, it could undermine the economic incentives that exclusive rights were meant to promote. Thus, according to Merges, “[t]he only way to prevent this is to set [the price] equal to the holders’ valuation in each case—which is of course most efficiently accomplished by a property rule.”⁵⁹

b) Liability Rules Are More Efficient When Transaction Costs Are High

Instead of granting injunctive relief, liability rules only entitle property owners to monetary damages. In doing so, they overcome barriers to efficiency that are present in transactions involving numerous parties, otherwise high transaction costs, and other conditions that may lead to market failure. As discussed *infra*,⁶⁰ holdout behavior, such as strategic bargaining,⁶¹ can be an insurmountable barrier to negotiations. Similarly, transactions with significant public benefits that are not considered by the private parties at the bargaining table can also lead to market failure.⁶² In these situations, without objective third-party valuation, a transfer might not occur even though it would be socially desirable.⁶³ Therefore, according to Calabresi and Melamed, liability rules become preferable to property rules when “market valuation of the entitlement is deemed inefficient.”⁶⁴

either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located.”

56. See 17 U.S.C. § 107 (2006).

57. See BLAIR & COTTER, *supra* note 25.

58. Merges, *supra* note 54, at 1306.

59. *Id.*

60. See *infra* text accompanying note 71.

61. Merges, *supra* note 27, at 2664.

62. Lydia Pallas Loren, *Redefining the Market Failure Approach to Fair Use in an Era of Copyright Permission Systems*, 5 J. INTELL. PROP. L. 1, 26 (1997).

63. *Id.*

64. Calabresi & Melamed, *supra* note 39, at 1110.

In the copyright realm, collective rights organizations (CROs)⁶⁵ and statutory licensing⁶⁶ have helped overcome the high transaction costs associated with too many parties and too many transactions. In CROs like ASCAP and BMI, for example, knowledgeable music industry participants establish a set of rules for the licensing of songs, thus solving the market failure problem by eliminating the high transaction costs associated with having too many parties at the bargaining table.⁶⁷ CROs are usually more efficient than compulsory licensing schemes because they reflect industry expertise and are more flexible over time.⁶⁸ Compulsory licenses set by Congress⁶⁹ are subject to the inflexibility of the statutory revision process as well as to the susceptibility of legislators to influence by powerful lobbyists. Despite these limitations, such licenses have been effective at overcoming certain high transaction costs.⁷⁰

Even with CROs and compulsory licenses, several pockets remain where strong property rules lead to market failure in copyright law. Hold-out behavior creates one of these pockets. For example, authors often refuse to negotiate with those who would create derivatives of their works, such as satires,⁷¹ that fall outside the scope of fair use protection.⁷² Judge Alex Kozinski of the Ninth Circuit emphasized that this is particularly true when a derivative work “has undertones of ridicule that are likely to make

65. Examples of CROs include the Copyright Clearance Center (CCC) for textual works such as books or journal articles, a smattering of entities that each represent various size groups of visual artists and photographers, the American Society of Composers, Authors, and Publishers (ASCAP) and Broadcasting Music, Inc. (BMI) for musical performance rights, the Recording Industry Association of America (RIAA) for sound recordings, and the Motion Picture Licensing Corporation (MPLC) for public display rights in films.

66. See *infra* note 69.

67. Merges, *supra* note 54, at 1295.

68. *Id.* at 1296-97.

69. 17 U.S.C. § 111(d) (2006) (creating a compulsory license for secondary transmission by cable systems); 17 U.S.C. § 115 (2006) (creating a compulsory license for making and distributing phonorecords); 17 U.S.C. § 116 (2006) (creating a compulsory license for public performances by coin-operated phonorecord players).

70. Merges, *supra* note 54, at 1296, 1299.

71. The Supreme Court distinguished satire from parody in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994). While parodies comment on the underlying work, satires use the underlying work to target a third party. *Id.* at 580. Parodies more often fall under fair use protection since the owner of the underlying work would be unlikely to license a new use that criticizes his/her own work. Supposedly copyright owners would not have the same reservations for derivative works that target third parties. See Kozinski & Newman, *supra* note 20, at 516-18.

72. Blair & Cotter, *supra* note 25, at 40.

owners of the original work uncomfortable.”⁷³ The market failure that occurs when a copyright holder refuses to negotiate suggests that a liability rule would be the more efficient paradigm in these kinds of cases.

Holdups can also be problematic in copyright law because of what Professors Mark Lemley and Philip Weiser term the “extortion-based principle.”⁷⁴ Holdups occur when the scope of an injunction would be broader than the scope of the rights infringed.⁷⁵ Such overbroad protection occurs, for example, when enjoining an entire work that incorporates copyrighted material only as a small part of the creative whole.⁷⁶ In these situations, rights holders leverage the knowledge that an injunction would harm the user more than it would benefit the copyright owner to drive settlement rates far above what would be socially optimal.⁷⁷

Risk aversion on the part of would-be infringers has led to yet another pocket of inefficiency in copyright law. This type of market failure often occurs at the boundaries of fair use because of the uncertainty associated with fair use determinations.⁷⁸ While the questionable fair use of a copyrighted work might be permitted without requiring the user to pay a licensing fee, the denial of this statutory defense has almost always guaranteed an injunction.⁷⁹ The fuzzy borders of fair use, coupled with the harsh specter of an injunction when fair use is denied, has arguably led to the underproduction of useful derivative works.

Finally, when the use of a work would provide significant external or social benefits that will not be efficiently internalized or cannot be easily monetized in licensing negotiations, a liability rule would lead to the more socially desirable outcome.⁸⁰ For example, Professor Lydia Pallas Loren argued that in *Princeton University Press v. Michigan Document Services*,

73. Kozinski & Newman, *supra* note 20, at 518.

74. Lemley & Weiser, *supra* note 47, at 796.

75. *Id.* at 795-96.

76. *See, e.g.*, Woods v. Universal City Studios, Inc., 920 F. Supp. 62, 65 (S.D.N.Y. 1996) (enjoining distribution of a motion picture that contained five scenes where the set design was based on a copyrighted drawing).

77. Lemley & Weiser, *supra* note 74, at 795.

78. For example, a biographer elected not to include reproductions of her subject's paintings in a biography for fear of an injunction even though it would probably have been considered fair use. Similarly, Merchant Ivory decided not to use actual Picassos in the film *Surviving Picasso*. *See* Dannay, *supra* note 34, at 454; *see also* Pierre N. Leval, *Fair Use or Foul?*, 36 J. COPYRIGHT SOC'Y U.S.A. 167, 179 (1989) (discussing how “the widely varying perceptions of different judges” makes fair use determinations difficult to predict).

79. Leval, *supra* note 78, at 179.

80. Loren, *supra* note 57, at 48-53.

*Inc.*⁸¹ the external benefit of a better-educated citizenry would probably not be internalized by the individual students in a classroom who were unwilling to pay the high royalty fees charged by the publisher to reproduce excerpts from certain copyrighted works.⁸² Loren, citing the dissenting opinion in that case, predicted that such market failure would “result in classroom handouts not being used as frequently or as effectively, and promise[d] to hinder scholastic progress nationwide.”⁸³ In an en banc rehearing of the case on appeal, the Sixth Circuit found that the unauthorized reproduction was not protected by the classroom exception under fair use because of the commercial nature of the transaction.⁸⁴ The court issued a permanent injunction.⁸⁵ Since the social interest in a well-educated citizenry is non-monetizable, the result of the injunction was market failure. Thus, the presumption favoring a property rule should yield to a liability rule when an injunction would subvert the utilitarian policy aims of copyright protection.

II. CASE SUMMARY OF *EBAY INC. V. MERCExchange*

Over the years, the Supreme Court has gently reminded the lower courts through footnotes and dicta to use their discretion when deciding whether to issue injunctive relief upon a finding of infringement.⁸⁶ Finally, in 2006, *eBay Inc. v. MercExchange*⁸⁷ brought the issue to the forefront of intellectual property law. In its brief, but unanimous opinion, the Court announced that lower courts were required to consider traditional equitable principles when deciding whether to issue injunctions.⁸⁸

This section recounts the majority’s analysis in *eBay*. It also analyzes the two concurrences, which offer glimpses into the types of cases in which injunctive relief should be denied in favor of a liability rule.

81. 99 F.3d 1381 (6th Cir. 1996). In this case, publishers brought a copyright infringement action against a copy shop that reproduced and distributed copyrighted works to students in the form of coursepacks, without paying royalties or permission fees. The appellate court held that it was not fair use.

82. Loren, *supra* note 62, at 52.

83. *Id.* (citing *Princeton Univ. Press v. Michigan Document Servs., Inc.*, 99 F.3d 1381, 1393 (6th Cir. 1996) (Martin, J., dissenting)) (internal quotations omitted).

84. *Princeton Univ. Press*, 99 F.3d at 1383.

85. *Id.* at 1392-93.

86. *See supra* Section I.A and notes 14-18.

87. 547 U.S. 388 (2006).

88. *Id.*

A. The Decision

MercExchange, L.L.C. v. eBay, Inc. arose when MercExchange sued eBay for infringing certain online auction patents it held, including the popular “Buy It Now” feature,⁸⁹ after attempted licensing negotiations failed.⁹⁰ A jury found eBay guilty of infringement and awarded damages.⁹¹ MercExchange moved for permanent injunctive relief as well.⁹² The district court denied the request, concluding that “the plaintiff’s willingness to license its patents [and] its lack of commercial activity in practicing the patents” indicated that the patent holder would not suffer irreparable harm.⁹³ The Federal Circuit Court of Appeals reversed the district court, applying a “general rule” that “a permanent injunction will issue once infringement and validity have been adjudged.”⁹⁴ The Supreme Court granted certiorari “to determine the appropriateness of this general rule.”⁹⁵

In its unanimous ruling, the Court held that it was error to apply a “general rule” to a patent injunction determination.⁹⁶ Instead, traditional equitable principles required the plaintiffs to demonstrate that balancing the following factors supported their request for injunctive relief: (1) irreparable harm, (2) the inadequacy of monetary damages, (3) the balance of hardships, and (4) the public interest.⁹⁷ Additionally, the Supreme Court held that although the district court made reference to this test, it also abused its discretion by failing to apply it properly.⁹⁸ Specifically, the district court’s adoption of “expansive principles” was an abuse of discretion that improperly led the district court to conclude “that injunctive relief could not issue in a broad swath of cases.”⁹⁹

Although the facts of the case relate specifically to injunctive relief for infringement of a business method patent, the Supreme Court emphasized in its decision that the four-factor traditional equitable relief analysis from *eBay* “is consistent with [the Court’s] treatment of injunctions under the

89. *MercExchange, L.L.C. v. eBay, Inc.*, 275 F. Supp. 2d 695, 719 (E.D. Va. 2003).

90. *eBay*, 547 U.S. at 390.

91. *eBay*, 275 F. Supp. 2d at 698.

92. *Id.* at 710-11.

93. *Id.* at 712.

94. *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005) (acknowledging that there are special circumstances that would preclude issuing an injunction, but holding that none of those circumstances was present in this case).

95. *eBay*, 547 U.S. at 391.

96. *Id.* at 394.

97. *Id.* at 391.

98. *Id.* at 393.

99. *Id.*

Copyright Act.”¹⁰⁰ The Court admonished that it “has consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.”¹⁰¹ Thus, the *eBay* Court instructed that categorical rules are no longer permissible when determining whether to grant injunctive relief to patent and copyright holders alike. Rather, courts must carefully balance the four *eBay* factors in each case, according to traditional principles of equity.

B. The Concurrences

In his concurring opinion, Chief Justice Roberts cited “the basic principle of justice that like cases should be decided alike” as a primary reason for requiring courts to apply the traditional four-factor test.¹⁰² He also reasoned that within that framework, the first two factors, irreparable harm and inadequate remedies at law, will normally be satisfied if the plaintiff establishes infringement.¹⁰³ This is because of the “difficulty of protecting a right to *exclude* through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes.”¹⁰⁴ Chief Justice Roberts also conceded that this is why courts have historically granted injunctive relief upon a finding of infringement.¹⁰⁵ Thus, the Chief Justice tacitly acknowledged that a property rule represents the historic norm for intellectual property rights, even if it does not actually *entitle* rights holders to injunctive relief.

Justice Kennedy’s concurrence challenged the Chief Justice’s reasoning. He countered that “a right to exclude does not dictate the remedy for a violation of that right.”¹⁰⁶ Moreover, according to Justice Kennedy, the historical preference for injunctions does not create a presumption that an injunction should be granted today, or that other remedies at law are inadequate. Rather, history merely “illustrates the result of the four-factor

100. *Id.* at 392.

101. *Id.* at 392-93 (citing *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 505 (2001); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994); *Dun v. Lumbermen’s Credit Ass’n*, 209 U.S. 20, 23-24 (1908)).

102. *Id.* at 395 (Roberts, C.J., concurring) (“Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.”) (citing *Martin v. Franklin Capital Corp.*, 546 U.S. 132 (2005)).

103. *Id.*

104. *Id.*

105. *Id.*

106. *Id.* at 396 (Kennedy, J., concurring).

test in the contexts then prevalent.”¹⁰⁷ Justice Kennedy went on to discuss patent law’s modern context.¹⁰⁸ Today, non-practicing patent holders¹⁰⁹ often use the threat of injunction as a bargaining tool to extract “exorbitant” licensing fees.¹¹⁰ When the patented invention is only a small component of the product being produced, the threat of injunction creates “undue leverage in negotiations [for which] legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.”¹¹¹ Thus, Justice Kennedy favored a liability rule in holdup situations where patent owners—and presumably copyright owners, as well—would have an unfair advantage at the bargaining table. So long as monetary damages would adequately compensate the rights holder, a strong property rule would be unjustified since a liability rule would better serve the public interest.

III. ANALYSIS OF *EBAY*'S LIKELY IMPACT ON COPYRIGHT LAW

Part III analyzes the role *eBay* has played in shaping copyright infringement determinations so far, and then forecasts its potential impact on future decisions regarding requests for equitable relief in copyright infringement actions. Section III.A summarizes how courts have ruled in the aftermath of *eBay* in copyright infringement cases where plaintiffs have sought injunctive relief. The case law provides some insights, but also some confusion, about the effect *eBay* has actually had on copyright injunction cases. Section III.B identifies four types of market failure that result from adherence to strict property rules in copyright law. Applying the four factors to specific fact patterns, this section explains how *eBay* gives courts the opportunity to correct these failures.

107. *Id.*

108. *Id.* at 396-97.

109. Non-practicing patent holders are frequently called patent trolls, although Justice Kennedy makes no mention of this epithet. *See, e.g.,* Blair Silver, *Controlling Patent Trolling with Civil RICO*, 11 YALE J.L. & TECH. 70, 72 (2008).

110. *eBay*, 547 U.S. at 396 (Kennedy, J., concurring) (“For these firms [that obtain patents primarily to obtain licensing fees], an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent.”).

111. *Id.* at 396-97.

A. *eBay's Impact on Copyright Law To Date Has Been Minimal*

Of twenty-eight copyright injunction cases that have been decided since *eBay*,¹¹² only two have denied a plaintiff's request for equitable relief.¹¹³ Both of these injunction denials involved copyrights for architectural designs. In *Christopher Phelps & Assocs. v. Galloway*, the Fourth Circuit refused to enjoin the sale of an infringing house even though the

112. These cases were found using Westlaw's KeyCite Alert feature for cases citing the Supreme Court's decision in *eBay* and JurisNotes.com, Inc.'s "Intellectual Property Notes" e-mail updates, as well as other secondary sources such as LexisNexis Expert Commentaries, through Dec. 18, 2008.

113. Injunction denied: *Christopher Phelps & Assocs. v. Galloway*, 492 F.3d 532 (4th Cir. 2007); *Allora, L.L.C. v. Brownstone, Inc.*, No. 1:07CV87, 2007 WL 1246448 (W.D.N.C. April 27, 2007) (preliminary injunction motion denied in part and granted in part). Preliminary injunction granted after applying *eBay* factors: *Agdata v. Gupta*, No. 3:08cv419, 2008 WL 4811674 (W.D.N.C. Oct. 31, 2008); *Ticketmaster, LLC v. RMG Techs., Inc.*, 507 F. Supp. 2d 1096 (C.D. Cal. 2007); *Nat'l League of Junior Cotillions v. Porter*, No. 3:06-cv-508-RJC, 2007 WL 2316823 (W.D.N.C. Aug. 9, 2007); *Advance Magazine Publishers Inc. v. Leach*, 466 F. Supp. 2d 628 (D. Md. 2006). Permanent injunction granted after applying *eBay* factors: *CoxCom, Inc. v. Chaffee*, 536 F.3d 101 (1st Cir. 2008); *Warner Bros. Entm't Inc. v. RDR Books*, 575 F. Supp. 2d 513 (S.D.N.Y. 2008); *Idearc Media Corp. v. Nw Directories, Inc.*, No. 07-796-HA, 2008 WL 2185334 (D. Or. May 23, 2008); *Bryant v. Mattel, Inc.*, No. CV 04-09049 SGL(RNBx), 2008 WL 3367605 (C.D. Cal. Aug. 8, 2008); *MGM v. Grokster*, 518 F. Supp. 2d 1197 (C.D. Cal. 2007); *Warner Bros. Entm't Inc. v. Carsagno*, No. 06 CV 2676(NG)(RLM), 2007 WL 1655666 (E.D.N.Y. Jun. 4, 2007); *Microsoft Corp. v. McGee*, 490 F. Supp. 2d 874 (S.D. Ohio 2007); *Propet USA, Inc. v. Shugart*, No. C06-0186-MAT, 2007 WL 4376204 (W.D. Wash. Dec. 13, 2007); *Priority Records LLC v. Rodriguez*, No. CV F 06-0484 AWI LJO, 2007 WL 120033 (E.D. Cal. Jan. 11, 2007); *Capitol Records, Inc. v. Zahn*, No. 3:06-0212, 2007 WL 542816 (M.D. Tenn. Feb. 16, 2007); *UMG Recordings, Inc. v. Blake*, No. 5:06-CV-00120-BR, 2007 WL 1853956 (E.D.N.C. Jun. 26, 2007); *Litecubes L.L.C. v. Northern Lights Prods.*, No. 4:04CV00485 ERW, 2006 WL 5700252 (E.D. Mo. Aug. 25, 2006); *Lava Records L.L.C. v. Ates*, No. Civ.A. 05-1314, 2006 WL 1914166 (W.D. La. Jul. 11, 2006); *Disney Enters., Inc. v. Delane*, 446 F. Supp. 2d 402 (D. Md. 2006). Permanent injunction granted without considering *eBay* factors: *Arista Records LLC v. Furia Sonidera, Inc.*, No. 05 CV 5906(ILG)(RER), 2007 WL 922406 (E.D.N.Y. Mar. 26, 2007); *Mitchell Int'l, Inc. v. Fraticelli*, Civil No. 03-1031 (GAG/BJM), 2007 WL 4197583 (D.P.R. Nov. 26, 2007); *Disney Enters., Inc. v. Merchant*, No. 6:05-CV-1489, 2007 WL 1101110 (N.D.N.Y. Apr. 10, 2007); *Sony Pictures Home Entm't, Inc. v. Chetney*, No. 5:06-CV-227 (FJS/GJD), 2007 WL 655772 (N.D.N.Y. Feb. 26, 2007); *Columbia Pictures Indus., Inc. v. Molina*, Civil No. 06-00288 JMS-LEK, 2007 WL 1080086 (D. Haw. Apr. 6, 2007); *Columbia Pictures Film Prod. Asia Ltd. v. Uth*, No. CIV S-06-1054 FCD DAD, 2007 WL 36283 (E.D. Cal. Jan. 4, 2007); *Sony Pictures Home Entm't, Inc. v. Lott*, 471 F. Supp. 2d 716 (N.D. Tex. 2007); *Paramount Pictures Corp. v. Davis*, Civil Action No. 05-0316, 2006 WL 2092581 (E.D. Pa. July 26, 2006).

first two *eBay* factors favored the plaintiff.¹¹⁴ In evaluating the third factor, the balance of hardships, the court determined that a permanent injunction would “impose a draconian burden” on the defendant and “take on a fundamentally punitive character, which has not been countenanced in the Copyright Act’s remedies.”¹¹⁵ The fourth factor also strongly disfavored an injunction because the court considered the restraint on alienability of real property to be categorically against the public interest.¹¹⁶ Thus, the court denied the permanent injunction based on the last two *eBay* factors despite the plaintiff’s demonstration of irreparable injury and the inadequacy of monetary damages.

Similarly, in *Allora, L.L.C. v. Brownstone, Inc.*, the other architectural design case, the court denied the plaintiff’s request for a preliminary injunction to stop the construction of three infringing homes that were already near completion.¹¹⁷ First, the plaintiff failed to show “that the existence of these three homes substantially and irreparably harm[ed] Plaintiff beyond a point that monetary damages cannot address.”¹¹⁸ Second, the balance of the harms strongly favored the defendants because “preventing the completion and sale of these homes could cause massive damage to Defendants’ reputations and financial stability.”¹¹⁹ Finally, the public interest strongly disfavored an injunction, which would be a waste of resources, put subcontractors and laborers out of work, and leave an unpleasant site with potentially hazardous conditions for the neighborhood.¹²⁰

These two decisions suggest that lower courts are taking *eBay* seriously. Moreover, their careful analysis of equitable considerations and subsequent denials of injunctive relief demonstrate that there are occasions when lower court judges think property rules should give way to liability

114. 492 F.3d 532, 544 (4th Cir. 2007) (“Irreparable injury often derives from the nature of copyright violations, which deprive the copyright holder of intangible exclusive rights . . . [C]alculation of future damages and profits [would be] . . . difficult or impossible in this case.”).

115. *Id.* at 545.

116. *Id.* at 545-46.

117. *Allora, L.L.C. v. Brownstone, Inc.*, No. 1:07CV87, 2007 WL 1246448, at *8 (W.D.N.C. April 27, 2007) (“Plaintiff’s motion for a preliminary injunction halting construction of Defendants’ three homes based upon Plaintiff’s design plans will be denied, and Defendants will be allowed to complete construction on the three houses currently being built.”)

118. *Id.* at *6.

119. *Id.* at *7.

120. *Id.* at *8.

rules in copyright law. The question remains, however, whether this holds true outside the architectural design milieu.

Among the other twenty-six post-*eBay* copyright injunction decisions, eight neglected to apply traditional equitable principles at all or to make any mention of *eBay*.¹²¹ The lack of consideration for *eBay*'s holding might suggest that the analysis by lower courts may not change much as a result of that decision. After all, according to Richard Dannay, former president of the Copyright Society of the U.S.A., "[t]he Supreme Court dicta in *Campbell* and *Tasini* has not gone unnoticed but has been largely unheeded."¹²² However, all eight cases involved willful infringement,¹²³ and five were default judgments,¹²⁴ which may have mitigated the need for traditional equitable considerations.

Among the cases that did apply *eBay*, willful infringement often led courts to find irreparable harm for which monetary damages would not

121. *Arista Records LLC v. Furia Sonidera, Inc.*, No. 05 CV 5906(ILG)(RER), 2007 WL 922406 (E.D.N.Y. Mar. 26, 2007); *Mitchell Int'l, Inc. v. Fraticelli*, Civil No. 03-1031 (GAG/BJM), 2007 WL 4197583 (D.P.R. Nov. 26, 2007); *Disney Enters., Inc. v. Merchant*, No. 6:05-CV-1489, 2007 WL 1101110 (N.D.N.Y. Apr. 10, 2007); *Sony Pictures Home Entm't, Inc. v. Chetney*, No. 5:06-CV-227 (FJS/GJD), 2007 WL 655772 (N.D.N.Y. Feb. 26, 2007); *Columbia Pictures Indus., Inc. v. Molina*, Civil No. 06-00288 JMS-LEK, 2007 WL 1080086 (D. Haw. Apr. 6, 2007); *Columbia Pictures Film Prod. Asia Ltd. v. Uth*, No. CIV S-06-1054 FCD DAD, 2007 WL 36283 (E.D. Cal. Jan. 4, 2007); *Sony Pictures Home Entm't, Inc. v. Lott*, 471 F. Supp. 2d 716 (N.D. Tex. 2007); *Paramount Pictures Corp. v. Davis*, Civil Action No. 05-0316, 2006 WL 2092581 (E.D. Pa. July 26, 2006).

122. Dannay, *supra* note 34, at 456 (referring to *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) and *N.Y. Times, Inc. v. Tasini*, 533 U.S. 483, 505 (2001)).

123. *Arista Records LLC v. Furia Sonidera, Inc.*, No. 05 CV 5906(ILG)(RER), 2007 WL 922406 (E.D.N.Y. Mar. 26, 2007); *Mitchell Int'l, Inc. v. Fraticelli*, Civil No. 03-1031 (GAG/BJM), 2007 WL 4197583 (D.P.R. Nov. 26, 2007); *Disney Enters., Inc. v. Merchant*, No. 6:05-CV-1489, 2007 WL 1101110 (N.D.N.Y. Apr. 10, 2007); *Sony Pictures Home Entm't, Inc. v. Chetney*, No. 5:06-CV-227 (FJS/GJD), 2007 WL 655772 (N.D.N.Y. Feb. 26, 2007); *Columbia Pictures Indus., Inc. v. Molina*, Civil No. 06-00288 JMS-LEK, 2007 WL 1080086 (D. Haw. Apr. 6, 2007); *Columbia Pictures Film Prod. Asia Ltd. v. Uth*, No. CIV S-06-1054 FCD DAD, 2007 WL 36283 (E.D. Cal. Jan. 4, 2007); *Sony Pictures Home Entm't, Inc. v. Lott*, 471 F. Supp. 2d 716 (N.D. Tex. 2007); *Paramount Pictures Corp. v. Davis*, Civil Action No. 05-0316, 2006 WL 2092581 (E.D. Pa. July 26, 2006).

124. *Arista Records LLC v. Furia Sonidera, Inc.*, No. 05 CV 5906(ILG)(RER), 2007 WL 922406 (E.D.N.Y. Mar. 26, 2007); *Disney Enters., Inc. v. Merchant*, No. 6:05-CV-1489, 2007 WL 1101110 (N.D.N.Y. Apr. 10, 2007); *Sony Pictures Home Entm't, Inc. v. Chetney*, No. 5:06-CV-227 (FJS/GJD), 2007 WL 655772 (N.D.N.Y. Feb. 26, 2007); *Columbia Pictures Indus., Inc. v. Molina*, Civil No. 06-00288 JMS-LEK, 2007 WL 1080086 (D. Haw. Apr. 6, 2007); *Columbia Pictures Film Prod. Asia Ltd. v. Uth*, No. CIV S-06-1054 FCD DAD, 2007 WL 36283 (E.D. Cal. Jan. 4, 2007).

adequately compensate.¹²⁵ The finding of irreparable harm was usually due to the threat of ongoing or continued infringement.¹²⁶ Similarly, courts also found that inducement strongly suggested a likelihood of future third party infringement and thus irreparable injury and the inadequacy of monetary damages.¹²⁷ In all of these cases, courts granted injunctive relief.

In most of the cases surveyed, courts found that the balance of hardships factor also favored plaintiffs.¹²⁸ Ordinarily, the only harm that would befall the enjoined defendants was their forced acquiescence to the law. Meanwhile, courts relied on the threat of continued infringement as a source of hardship for plaintiffs. Thus, the threat of infringement can implicate all of the first three *eBay* factors: irreparable harm, the inadequacy of monetary damages, and the balance of hardships.

Finally, most courts determined that there is a “public interest in preserving a copyright holder’s exclusive rights and no public interest w[ould] be disserved” by an injunction.¹²⁹ Courts usually considered the countervailing public interests as well, such as the “interest in receiving copyrighted content for free.”¹³⁰ But they still concluded that the public interest in the “enforcement of federal statutes”¹³¹ and “the incentive for original authors to create new works”¹³² weighed more heavily.

Overall, the lower courts have applied traditional equitable principles almost seventy-five percent of the time since *eBay*.¹³³ Most of the time, the four factors were given more than a cursory review. And all but twice, the required framework still led courts to uphold strong property rules for copyright owners.¹³⁴ Those two cases show that severe hardship to the in-

125. See, e.g., *Disney Enters., Inc. v. Delane*, 446 F. Supp. 2d 402 (D. Md. 2006); *Warner Bros. Entm’t Inc. v. Carsagno*, No. 06 CV 2676(NG)(RLM), 2007 WL 1655666, at *6 (E.D.N.Y. Jun. 4, 2007); see also *supra* note 113.

126. See, e.g., *MGM v. Grokster*, 518 F. Supp. 2d 1197 (C.D. Cal. 2007); *Warner Bros. Entm’t Inc. v. Carsagno*, No. 06 CV 2676(NG)(RLM), 2007 WL 1655666 (E.D.N.Y. Jun. 4, 2007); *Propet USA, Inc. v. Shugart*, No. C06-0186-MAT, 2007 WL 4376204 (W.D. Wash. Dec. 13, 2007).

127. See, e.g., *Grokster*, 518 F. Supp. 2d 1197.

128. See, e.g., *CoxCom, Inc. v. Chaffee*, 536 F.3d 101, 112 (1st Cir. 2008); *Warner Bros. Entm’t Inc. v. RDR Books*, 575 F. Supp. 2d 513, 553 (S.D.N.Y. 2008); see also *supra* note 113.

129. *UMG Recordings, Inc. v. Blake*, No. 5:06-CV-00120-BR, 2007 WL 1853956, *3 (E.D.N.C. Jun. 26, 2007).

130. *Grokster*, 518 F. Supp. 2d at 1222.

131. *CoxCom*, 536 F.3d at 112.

132. *RDR Books*, 575 F. Supp. 2d at 553.

133. Twenty of the twenty-eight (or 71.4% of) post-*eBay* cases applied the four factors in at least a cursory fashion. See *supra* note 113.

134. See *supra* note 113.

fringer and a strong public interest in denying an injunction can lead courts to adopt liability rules.

B. *eBay* has Potential to Solve Market Failures Associated with Property Rules in Copyright Law

Based on the law and economics framework developed in Section I.B.2, copyright law should favor property rules, and therefore injunctions, except where they would lead to market failures. High transaction costs due to numerous stakeholders, holdout behavior, and the existence of positive externalities not considered during licensing negotiations are all common barriers to socially optimal distributions of copyright entitlements.¹³⁵ As discussed *supra*, collective rights organizations such as ASCAP and BMI have become efficient, market-based solutions to the high transaction costs associated with numerous parties and multiple copyrights.¹³⁶ Statutory-based compulsory licenses have helped solve those problems as well.¹³⁷ However, even with these solutions to the problem of numerous parties as a barrier to negotiation, other kinds of market failures remain.¹³⁸ Various forms of holdout behavior, disregard for public benefits, and risk aversion still provide pockets of inefficiency in copyright transactions guided by property rules.¹³⁹

Moreover, property rules do not comport with the utilitarian aims of copyright protection when applied to derivative works that would contribute something original and valuable to the public. As previously mentioned,¹⁴⁰ even though some derivative works are protected by fair use, the uncertainty of a fair use determination, combined with the surety of being enjoined if the use is not considered fair, has often led to risk aversion and suboptimal levels of derivative expression. Unfortunately, until more courts rely on the *eBay* standard to deny injunctions, this problem is likely to persist. Nevertheless, in the wake of *eBay* there now exists an analytical framework for courts to apply so that close-call fair use cases no longer inevitably lead to automatic injunctions upon a finding of infringement. According to Judge Leval, this is especially true when the secondary use “serve[s] a valuable productive function” and “[t]he copyright owner’s interest may be fully protected by damages.”¹⁴¹ Over time, therefore, *eBay*

135. See *supra* text accompanying notes 71-85.

136. See *supra* text accompanying notes 65-70.

137. See *supra* text accompanying notes 65-70.

138. Loren, *supra* note 62, at 33.

139. See *supra* text accompanying notes 71-85.

140. See *supra* text accompanying notes 78-79.

141. Leval, *supra* note 78, at 179.

has the potential to mitigate likely market failure due to risk aversion related to the uncertainties associated with fair use.

Section III.B looks at each of the various forms of market failure that *eBay*'s demand for equitable principles has the potential to help overcome. It applies the four-factor framework to pre-*eBay* cases to illustrate how they might have come out differently had they been decided today. By urging courts to consider the balance of harms and the public interest, *eBay* should, in theory, lead to the denial of injunctive relief when property rules would lead to market failure. In light of copyright's utilitarian aims, many of these scenarios involve the close-call fair use cases mentioned above because there is often a strong public interest disfavoring injunctions in those cases. Section III.B.1 suggests that *eBay* could lead to the denial of injunctions for holdout behavior, when owners refuse to negotiate for a license that would be socially optimal. Section III.B.2 discusses how the inability of owners to negotiate, particularly in the case of orphan works for which the owner cannot be found, could lead to the equivalent of a judicial license. Section III.B.3 focuses on holdup behavior, suggesting that *eBay* should lead to the denial of injunctions when copyright owners hold up negotiations strategically to extort higher licensing fees. Finally, Section III.B.4 addresses *eBay*'s impact in the context of positive externalities, concluding that injunctions should be denied when private parties fail to take these externalities into consideration during failed negotiations.

1. *When Owners Refuse To Negotiate*

When an owner refuses to negotiate despite a strong public interest in licensing the use of a copyrighted work, *eBay*'s fourth factor, the public interest, should lead to a liability rule. There are a number of scenarios under which a copyright holder might refuse to license his copyrighted work under any terms. This Note explores two. First, authors may refuse to license criticism of their work that falls outside the scope of fair use. Second, they may refuse to license satires that use their copyrighted work to target third parties.

a) Public Interest in Criticism

The public interest in criticism is hard to deny. The Copyright Act itself states that "the fair use of a copyrighted work . . . for purposes such as criticism, comment, news, reporting, teaching (including multiple copies for classroom use), scholarship, or research" provides a limitation on an author's exclusive rights.¹⁴² But the Act fails to define precisely what con-

142. 17 U.S.C. § 107 (2006).

stitutes “fair use” for these purposes. There are examples of courts issuing injunctions after finding that precisely these kinds of uses were not fair. As discussed *supra*,¹⁴³ in *Princeton University Press* the Sixth Circuit enjoined the reproduction of excerpts of copyrighted works prepared for classroom teaching purposes.¹⁴⁴ Similarly, the Second Circuit issued an injunction against the photocopying of scientific journal articles for research purposes in *American Geophysical Union v. Texaco, Inc.*¹⁴⁵ For both of these cases, the statute expressly included the purposes of the use as defenses for infringement. Yet in both cases, appellate courts found infringement and issued injunctions.

Thus, it is understandable that the author of a critical biography about a well-known artist might be loath to include reproductions of his paintings in her book without his permission. Such was the case with Jill Johnston’s “unfavorable” biography of Jasper Johns.¹⁴⁶ Despite the public interest in matching the images of his works with text that says “[t]he art of Jasper Johns . . . conceals the truth of his life,”¹⁴⁷ the pictures were left out of the biography. Although a court might have found fair use in this case due to its purpose as criticism, the commerciality of the book might just as easily have led to an injunction¹⁴⁸—before *eBay*, that is. But after *eBay*, a court will have to analyze the four equitable factors before enjoining the work. Considering the utilitarian aims of copyright protection and the public interest in meaningful critique, the fourth factor regarding the public interest would likely defeat the request for injunctive relief, as it did in *Christopher Phelps & Assocs.*¹⁴⁹ Arguably, censorship of this kind that limits free speech could cause even more public harm than restricting the alienability of real property.¹⁵⁰ On the other hand, it could also be argued that Jasper Johns might lose his incentive to share his creations with the public if he is forced to allow critics to show his art alongside their criticisms. But on the whole, burning Johnston’s book to protect the exclusive rights of an artist whose pride makes him unwilling to negotiate a licensing fee would probably be even more detrimental. Thus, *eBay* has the potential to overcome the market failure caused by the uncertainty associated

143. See discussion *supra* notes 81-85 and accompanying text.

144. *Princeton Univ. Press v. Mich. Document Servs.*, 99 F.3d 1381 (6th Cir. 1996).

145. 60 F.3d 913, 916 (2d Cir. 1994).

146. See Dannay, *supra* note 34, at 454.

147. See *id.* (quoting Grace Glueck, *Hiding Behind the Flag*, N.Y. TIMES BOOK REV., Feb. 9, 1997, at 28 (reviewing JILL JOHNSON, JASPER JOHNS (1996))).

148. See 17 U.S.C. § 107 (2006).

149. *Christopher Phelps & Assocs., L.L.C. v. Galloway*, 492 F.3d 532 (4th Cir. 2007). See discussion *supra* Section III.A.

150. See *Christopher Phelps*, 492 F.3d at 545.

with fair use and the insurmountable transaction costs of a copyright owner who is unwilling to bargain.

Similarly, when Merchant Ivory made the film *Surviving Picasso*, the artist's son strongly objected to the making of the film and refused to license the use of any of his father's art.¹⁵¹ Again, the exploitation would appear to be fair use since its purpose is to comment on the life of a famous artist. But a film is also commercial. Before *eBay*, if the court did not find fair use, the plaintiff was almost certain to get his injunction. The uncertainty of the risk led the filmmakers to use fakes "that looked like Picassos, but not too much."¹⁵² As with *Jasper Johns*, after *eBay*, courts should be less likely to grant an injunction here. In addition to the public interest in seeing reproductions of Picasso's actual artwork when learning about his life, the balance of hardships would tip heavily in favor of the defendants since the costs of enjoining a film's distribution could be astronomical.¹⁵³ Balancing these two factors against any possible irreparable harm to Picasso's heir and the adequacy of monetary damages to compensate him, a court would likely deny the injunction. After a trio of similarly vexing fair use cases, Judge Leval dubbed the heir who refuses to negotiate for a license to critical works "the widow censor."¹⁵⁴ In the majority of these cases, a liability rule would solve the market failure when a copyright owner refused to negotiate.

In one particularly high profile case, the Second Circuit reversed Judge Leval's finding of fair use when a biographer quoted the unpublished works of J.D. Salinger to paint an unflattering picture of the reclusive author.¹⁵⁵ Judge Leval later admitted error in his overall finding of fair use because "some of the quotations took Salinger's artistic expression for the artistic expression" rather than for productive or transformative purposes.¹⁵⁶ Judge Leval had earlier acknowledged some of these infringing uses in his court opinion.¹⁵⁷ But he found fair use because of the public interest in the "overall usefulness of the book."¹⁵⁸

151. See Dannay, *supra* note 34, at 454.

152. *Id.* (quoting Edward Lewine, *Painting Sort of, Kind of, But Not Exactly Like Picasso*, N.Y. TIMES, Sept. 29, 1996, § 2 (Arts), at 15).

153. *But see* Woods v. Universal City Studios, Inc., 920 F. Supp. 62, 65 (1996) (holding that the cost to the filmmakers was irrelevant since they should not have infringed).

154. Leval, *supra* note 78, at 172.

155. See *Salinger v. Random House, Inc.*, 811 F.2d 90 (2d Cir. 1987).

156. Leval, *supra* note 78, at 170.

157. *Id.* at 171.

158. *Id.*

In the wake of *Salinger* being overturned and the biography enjoined, Judge Leval used the case to illustrate why a finding of infringement should not necessarily lead to equitable relief.¹⁵⁹ In fact, seventeen years before *eBay*, he argued that “[w]e should think twice before burning informative books, even if we conclude they contain quotations that exceed fair use.”¹⁶⁰ He illustrated the public interest in licensing the use of Salinger’s quotations by relating what happened in the aftermath of the injunction. When the author replaced the enjoined quotations with adjectives describing the contents of Salinger’s letters, a reviewer who also had access to the letters publicly disagreed with the biographer’s characterization.¹⁶¹ Without access to the quotations, the public had no way of knowing whether the biographer or the reviewer was right.¹⁶² A post-*eBay* court might find that the public interest in “allowing the readers to judge for themselves by reading revelatory extracts” far outweighs any harm to the copyright holder.¹⁶³ Even in 1989, Judge Leval opined that if the same facts presented themselves again he would find infringement but deny an injunction. “In this fashion [he] would protect the copyright owner’s entitlements, while preventing the misuse of the copyright law for the protection of secrecy and the suppression of valuable information.”¹⁶⁴

b) Public Interest in Satires

Satirical works are similar to the Jasper Johns biography, the Picasso film and the Salinger biography because they are often highly critical. However, unlike the critical works previously discussed, satires use copyrighted works to criticize something besides the underlying work.¹⁶⁵ Since their target is a third party, one might expect that copyright owners would not have the same motivation for holding out. However, “while imitation may be the highest form of flattery, it is also the commonest form of ridicule.”¹⁶⁶ As such, copyright holders may refuse to negotiate and subsequently win injunctions against satirists.

Such was the case with *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*, a case involving a satire of the O.J. Simpson trial presented in the style of Dr. Seuss.¹⁶⁷ There, the satire fell short of fair use and was en-

159. *Id.* at 179.

160. *Id.*

161. *Id.* at 172.

162. *Id.*

163. *Id.* at 172.

164. *Id.* at 180.

165. *See supra* note 71.

166. Kozinski & Newman, *supra* note 20, at 518.

167. 924 F. Supp. 1559 (S.D. Cal. 1996).

joined because it targeted the trial rather than the underlying Dr. Seuss work.¹⁶⁸ Afterwards, the rights holder refused to negotiate a license.¹⁶⁹ The satire was never to be seen again, even though the court conceded that it was a creative and original expression of the author's opinion about an event of considerable interest to the public.¹⁷⁰ As the Supreme Court warned in *Campbell*, the goals of copyright, "to stimulate the creation and publication of edifying matter," were not best served by enjoining a satire that went "beyond the bounds of fair use."¹⁷¹ The public was deprived of an original and highly creative critical commentary on one of the most notorious criminal trials of the century.

More recently, a book entitled *Goodnight Bush*, which borrowed copyrighted expression from the children's classic *Goodnight Moon* to target the George W. Bush presidency, has been the object of infringement speculation.¹⁷² The publishers of *Goodnight Bush* are relying on the fair use doctrine to shield them from copyright infringement claims.¹⁷³ Nevertheless, because the derivative work targets the Bush administration rather than the underlying creative work, a court might conclude that *Goodnight Bush* is a satire and thus unprotected by fair use.¹⁷⁴ The *eBay* analytical framework provides courts with the ability to deny injunctive relief for this kind of potential copyright dispute that suffers from the uncertainty of a fair use determination¹⁷⁵ and for which injunctive relief would compromise the goals of copyright law. For an author or publisher relying on the fair use doctrine in a close-call case, it would be unfair and overly harsh to ban publication of the book entirely. Thus, the third *eBay* factor, the balance of hardships, would strongly favor satirists whose works would be destroyed by injunctions. Moreover, although the copyright owners of *Goodnight Moon* might establish hardship, and perhaps even irreparable

168. *Id.* at 1567-68.

169. Kozinski & Newman, *supra* note 20, at 518.

170. *Id.* at 517.

171. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994).

172. See Joanne Kaufman, *The Secret to Success in Publishing: Bash Bush, With Nods to a Classic*, NY. TIMES, Jun. 16, 2008, at C6.

173. See *id.*

174. See *supra* note 71.

175. See *Campbell*, 510 U.S. at 581 ("[P]arody often shades into satire when society is lampooned through its creative artifacts . . ."); Andrew S. Long, *Mashed Up Videos and Broken Down Copyright: Changing Copyright to Promote the First Amendment Values of Transformative Video*, 60 OKLA. L. REV. 317, 335-339 (2007); Jason M. Vogel, *The Cat in the Hat's Latest Bad Trick: The Ninth Circuit's Narrowing of the Parody Defense to Copyright Infringement in Dr. Seuss Enterprises v. Penguin Books USA, Inc.*, 20 CARDOZO L. REV. 287, 312-13 (1998).

harm, from the undesirable associations and “undertones of ridicule”¹⁷⁶ inherent in a satirical work, the fourth *eBay* factor, the public interest, outweighs this harm in light of copyright’s utilitarian aims. As in *Dr. Seuss*,¹⁷⁷ the public has a strong interest in the political commentary and social criticism contained in *Goodnight Bush*, which are useful contributions to the public dialogue about current events. Thus, the equitable principles mandated by *eBay* should save from enjoinder satirical works that provide public value.

2. *When Owners Are Unable To Negotiate*

There are at least two additional scenarios that make negotiation nearly impossible. The first occurs when the number of stakeholders is so numerous as to be prohibitive to negotiations. Those situations are usually remedied through collective rights organizations and legislative compulsory licensing.¹⁷⁸

The second scenario involves orphan works. Although there is legislation pending in Congress that would “allow good-faith users of copyrighted content to move forward in cases where they wish to license a use but cannot locate the copyright owner after a diligent search,”¹⁷⁹ significant opposition still threatens the proposal.¹⁸⁰ In the meantime, fear that a latent copyright holder will materialize and sue for an injunction can lead to market failures like those found in the Jasper Johns biography and the *Surviving Picasso* film, where risk aversion led to inefficiency.

In the wake of *eBay*, an orphan works user should emerge victorious from an injunction hearing. First, the balance of hardships tips heavily in the defendant’s favor, particularly when the defendant has made a good faith effort to locate the copyright holder. One can imagine a filmmaker who has included images and artifacts of historical and social significance in a documentary film after fruitlessly searching for the copyright holders to get their permission. To enjoin the film, even in part, after an absent owner emerges would be a financial disaster to the filmmaker. Moreover, the public would be deprived of the socially valuable documentary work. It would therefore lead to a more socially optimal result if an injunction

176. Kozinski & Newman, *supra* note 20, at 518.

177. *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 924 F. Supp. 1559 (S.D. Cal. 1996).

178. See discussion *supra* Section I.B.2.

179. Marybeth Peters, Orphan Works: The Importance of Orphan Works Legislation, Sept. 25, 2008, <http://www.copyright.gov/orphan/>.

180. See The SAA Orphan Works Blog, <http://orphanworks.blogspot.com/> (last visited Feb. 5, 2009) (SAA is the abbreviation for the Stock Artists Alliance, the trade association of stock photographers).

were denied in favor of a judicially-determined fee that compensated the author of the original work.¹⁸¹ This is precisely what the Registrar of Copyrights has recommended to Congress for the orphan works legislation.¹⁸² But even without a legislative mandate, courts applying *eBay* should come to the same conclusion.

3. *When Owners Strategically Hold Up Negotiations*

Justice Kennedy's concurrence in *eBay* referenced patent owners who do not practice their patents, but instead use the threat of injunctive relief to extract "exorbitant" licensing fees out of companies that actually produce something useful.¹⁸³ Similarly, noted intellectual property scholar Mark Lemley has argued that "when the copyright owner's only legitimate interest is in compensation rather than control," an injunction should be denied.¹⁸⁴ This is particularly true when the threat of an injunction is "used as leverage in fee negotiations."¹⁸⁵

The Second Circuit found undue leverage used by the copyright holder in *Bill Graham Archives v. Dorling Kindersley* when it ruled that a publisher's unauthorized reproduction of seven Grateful Dead posters in a 480-page biographical work was a fair use.¹⁸⁶ The defendant-publisher had attempted to get a license for use of the posters, but the copyright holder insisted on a figure that was almost seventeen times the going rate and threatened aggressive legal action if its terms were not met.¹⁸⁷ The publisher took the risk, used the images without obtaining a license, and prevailed on the fair use defense.¹⁸⁸

Even if the publisher had lost the fair use defense, under *eBay*, an injunction should not have been issued. The first two *eBay* factors require a plaintiff to show irreparable harm and the inadequacy of monetary relief. The plaintiff, Bill Graham Archives, would have had a difficult time showing that seven concert posters reproduced in miniature for a bio-

181. *The "Orphan Works" Problem and Proposed Legislation: Hearing before the Subcomm. on Courts, the Internet, and Intellectual Property of the H. Comm. on the Judiciary*, 110th Cong. 19-20, 22 (March 13, 2008) (statement of Marybeth Peters, Register of Copyrights, U.S. Copyright Office).

182. *See* Peters, *supra* note 179 ("Reasonable compensation will be mutually agreed [upon] by the owner and the user or, failing that, be decided by a court.").

183. *See supra* Section II.B and note 110.

184. Mark A. Lemley, *Should A Licensing Market Require Licensing?*, 70 *LAW & CONTEMP. PROBS.* 185, 187 (2007).

185. Dannay, *supra* note 34, at 459.

186. *Bill Graham Archives v. Dorling Kindersley, Ltd.*, 448 F.3d 605 (2d Cir. 2006).

187. Dannay, *supra* note 34, at 459.

188. *Bill Graham Archives*, 448 F.3d at 608.

graphical work would create any kind of significant harm that could not be adequately compensated by a monetary award. Moreover, the balance of hardships would have strongly favored the defendant, whose books would have had to be recalled, edited, and republished in the event of an injunction. Finally, the public interest would also have disfavored injunctive relief since, like the Jasper Johns biography, the public has an interest in seeing the images associated with historical events as it reads about them. Hence *eBay* solves the market failure that results from strategic hold-ups by once again favoring a liability rule for damages.

Bill Graham Archives is but one of many cases in which the threat of injunction from the owner of an original work that is only a small part of a new creative whole is used strategically to drive up licensing fees. Justice Kennedy addressed this issue in the patent context in his *eBay* concurrence:

When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.¹⁸⁹

Nevertheless, with the majority's pronouncement that *eBay*'s equitable approach "is consistent with [the] treatment of injunctions under the Copyright Act,"¹⁹⁰ there is reason to believe that *eBay* applies with equal force when the copyrighted work is "but a small component"¹⁹¹ of a new creative work. Music sampling is an example of this kind of work. Fortunately, sampling clearinghouses have made great strides in solving this particular market failure.¹⁹² Like ASCAP or BMI, these clearinghouses receive authorization from their member copyright holders to license music samples according to a pre-negotiated fee structure.¹⁹³

However, there is no current market solution for clearing rights to visual works. Sure, if viewers are barely able to perceive the incorporation of a visual work into films or television programs, courts may view the use as *de minimis* and therefore beyond the scope of protection.¹⁹⁴ But as with

189. *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388, 396-97 (Kennedy, J., concurring).

190. *Id.* at 392 (majority opinion).

191. *Id.* at 396 (Kennedy, J., concurring).

192. A. Dean Johnson, *Music Copyrights: The Need for an Appropriate Fair Use Analysis in Digital Sampling Infringement Suits*, 21 FLA. ST. U.L. REV. 135, 163 (1993).

193. *Id.*

194. Andy Bechtel & Arati Korwar, *The Limits of Copyright Protection for the Use of Visual Works in Motion Pictures, Print Media and Pop Art in the 1990s*, (Oct. 24,

fair use, the boundary is unclear. Moreover, even if the visual work is easily perceptible an injunction could still lead to inefficient outcomes from a utilitarian copyright perspective.

In *Woods v. Universal City Studios, Inc.*, the court issued a preliminary injunction enjoining the distribution of the film *12 Monkeys*, which incorporated a set design based on the plaintiff's graphite pencil drawing.¹⁹⁵ The design appeared four times for a total of less than five minutes in the 130-minute film.¹⁹⁶ In spite of this, the court ruled that the use was not de minimis, declaring that "whether an infringement is de minimis is determined by the amount taken without authorization from the infringed work, and not by the characteristics of the infringing work."¹⁹⁷ The parties settled after the injunction was issued, and Universal reportedly paid in the high six-figures for the use.¹⁹⁸ Perhaps the large fee was warranted because Universal should have obtained permission before it appropriated the work. But what if Woods had refused to settle? The harm to the studio, in the process of rolling out an international release, would have been financially devastating.¹⁹⁹ Furthermore, the public would have been deprived of an Academy Award nominated film.²⁰⁰ Woods' willingness to settle after obtaining an injunction is strong evidence that his only interest in seeking an injunction was leverage for negotiations. Rather than suffering irreparable harm, Woods may have benefited from greater public rec-

1998), <http://list.msu.edu/cgi-bin/wa?A2=ind9810d&L=aejmc&P=54> (submitted to the Visual Communication Division of the Association for Education in Journalism and Mass Communication).

195. 920 F. Supp. 62, 63-64 (1996).

196. *Id.* at 65.

197. *Id.*

198. See Copyright Website, *12 Monkeys*, <http://www.benedict.com/visual/monkeys/monkeys.aspx> (last visited Feb. 13, 2009).

199. See James Thompson, *Permanent Injunctions in Copyright Infringement: Moral and Economic Justification for Balancing Individual Rights Instead of Following Harsh Rules*, 7 S. CAL. INTERDISC. L.J. 477, 503 (1998). Thompson argued that:

The district court's rash decision [in *Woods*] to resort to a potentially crippling permanent injunction could have caused grossly unfair results if Universal was a true innocent or good faith infringer. Instead of reserving the right to balance the interests or equities between parties in future innocent infringement cases, the district court forever turned its back on the idea that certain circumstances in an infringement case might not warrant a permanent injunction.

Id.

200. *12 Monkeys* was nominated for best supporting actor (Brad Pitt) and best costume design. *Twelve Monkeys* (1998)—Awards, <http://www.imdb.com/title/tt0114746/awards> (last visited Mar. 9, 2009).

ognition of his artwork. As for the adequacy of monetary damages, Woods' willingness to settle suggests that money could make him whole. After *eBay*, courts have the opportunity to apply a more socially optimal liability rule to a case like this, granting only monetary damages instead of rigidly adhering to the old property rule-injunction regime.

4. *When Negotiating Parties Fail To Consider Positive Externalities*

The final market failure resulting from property rules occurs when the copyright holder and the would-be licensee fail to take into account public benefits that would occur if the license were granted. As such, the license seeker may not be willing to pay a price that reflects the total social value of the license. When this happens, the fourth *eBay* factor is likely to lead courts to deny injunctions if the courts follow Lemley's reasoning that "the perceived public benefit in disseminating a work is sufficient to overwhelm market factors."²⁰¹

For example, assuming *arguendo* that Salinger would have been willing to license quotations from his private letters, the amount his biographer was willing to pay may have fallen short of the socially optimal price for obtaining the license.²⁰² In other words, according to Judge Leval, the biographer might not have considered the public value in viewers deciding for themselves whether the tone of the letters was "self promoting [and] . . . boastful" or "self-deprecating and charged with hope."²⁰³ Thus, when there is no one to represent the public interest at the bargaining table, negotiations between the buyer and seller may not maximize social utility. When this happens, a third party such as a court must sometimes step in to set a price that will lead to more socially efficient outcomes.²⁰⁴

In one 1997 case, the Ninth Circuit held that rebroadcasting the video of a police beating in Los Angeles was not a fair use and therefore required a license from the owner of the video.²⁰⁵ Although the court did not reach the issue of an injunction in denying the defendant's motion for summary judgment, after *eBay*, an injunction is far less likely due to the extraordinary public interest in viewing such a timely news segment as the Los Angeles riots were unfolding. This is especially likely given the adequacy of monetary damages to compensate the owner and the unlikelihood that the plaintiff would suffer irreparable harm.

201. Lemley, *supra* note 184, at 193.

202. Loren, *supra* note 62, at 23.

203. Leval, *supra* note 31, at 1114-15.

204. Loren, *supra* note 62, at 26.

205. *L.A. News Serv. v. KCAL-TV Channel 9*, 108 F.3d 1119 (1997).

IV. CONCLUSION

More than two years after *eBay*, the long-term ramifications of that decision on copyright law are still indeterminate. Of the twenty-eight copyright infringement cases since *eBay* reviewed in this Note, only two denied injunctive relief upon findings of infringement, and both involved architectural designs. From this evidence, one might conclude that *eBay*'s impact on copyright law could be almost as insignificant as prior Supreme Court admonitions.²⁰⁶

Nevertheless, the *eBay* Court's mandate that lower courts apply equitable principles to copyright injunction determinations presents an opportunity for courts to solve the market failures that are sometimes caused by strong property rules in copyright law. There are four key scenarios that lead to this kind of market failure. First, when copyright holders refuse to negotiate, which often occurs in close-call fair use cases, *eBay* reminds judges that they have the discretion to deny injunctive relief if it is in the public interest. Second, when owners are unable to negotiate because of high transaction costs, or simply because the author of a derivative work is unable to locate the copyright holder, courts have the opportunity to adopt a liability rule since a property rule would most likely tip the balance of hardships in favor of the creator of the derivative work. Third, when copyright owners strategically hold up negotiations in order to extort higher licensing fees, judges can rely on *eBay* to deny injunctive relief in favor of a forced judicial license. Finally, when negotiations fail because parties at the bargaining table neglect to account for positive externalities, *eBay* allows judges the discretion to account for these societal benefits by adopting a liability rule.

Thus, *eBay* has the potential to have a dramatic impact on four particular areas of copyright law. Judge Leval suggests that, in light of the four equitable factors and copyright's utilitarian aims, "[i]f an injunction would impoverish society, and the copyright owner can be appropriately protected by money damages, an injunction should not be granted."²⁰⁷ Whether *eBay* will fulfill this promise remains to be seen.

206. See *supra* Section III.A.

207. Leval, *supra* note 78, at 179.