EX-POST CARIOU: THE DEVELOPMENT OF COPYRIGHT FAIR USE AND ITS IMPLICATIONS ON CHARACTER MERCHANDISING

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Abstract: In 2014, a case from the United States Second Circuit sent shock waves when it gave the broadest definition of fair use till this day in Cariou. Ever since the widely adopted transformative use in 1992, thirty years later, people are still asking what exactly is fair use. This paper explains the evolution of fair use and the adoption of transformative use into the fair use analysis and looks into the appropriation art cases which led to Cariou. After assessing Cariou, this papers finds that unlike the past interpretation of fair use, Cariou seems to be looking into two areas which were largely ignored in the past, first, the definition of market in derivative works and second, the new found focus on content of the secondary work. These are the two areas in which will cause much uncertainty in the character merchandising industry. In this paper, the author advocates that in the future application of fair use, the market is limited for reproduction rights while the content should be divided into four categories on how the secondary work has transformed the original work to see whether fair use will be allowed.

Keywords: Copyright; fair use; transformative use; character merchandising; United States.

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I. Introduction

The purpose of copyright is to give authors a limit period of time to award her creation while allowing the public to benefit from that creation. However, this dedicate balance is not always easy to achieve, especially when courts have to decide when can a secondary author use the original author's work without getting a license but nonetheless falls under the fair use exception and therefore constitutes no infringement. The evolution of fair use has been giving academics and practitioners much materials to debate on, and sometimes the courts seem to be oblivious to these concerns while giving their own interpretations.

In 2014, a case from the Second Circuit sent shock waves when it gave the broadest definition of fair use till this day in *Cariou*.[1] Ever since the widely adopted transformative use in 1992, thirty years later, people are still asking what exactly is fair use. This paper explains the evolution of fair use and the adoption of transformative use into the fair use analysis and looks into the appropriation art cases which led to *Cariou*. After assessing *Cariou*, this papers finds that unlike the past interpretation of fair use, *Cariou* seems to be looking into two areas which were largely ignored in the past, first, the definition of market in derivative works and second, the new found focus on content of the secondary work. These are the two areas in which will cause much uncertainty in the character merchandising industry. In this paper, the author advocates that in the future application of fair use, the market is limited for reproduction rights while the content should be divided into four categories on how the secondary work has transformed the original work to see whether fair use will be allowed.

II. Introduction to characters

Characters are the backbone of the multi-billion dollar character merchandising industry. There are generallyfour types of characters:[2](1) Pure characters, or those characters that do "not appear in an incorporated work";[3] (2) Literary characters arising from novels or scripts with description and action creating the character; (3) Visual characters, as found in live-action movies;[44] and(4) Cartoon characters, a broader term than just animation, but used in reference

1 Cariou v. Prince, 714 F.3d 694 (2d Cir.2013).

2 Leslie A. Kurtz, *The Independent Legal Lives of Fictional Characters*, 1986 WIS. L. REV. 429 (1986).

3 Kenneth E. Spahn, *The Legal Protection of Fictional Characters*, 9 U. MIAMI ENT. & SPORTS L.REV. 331, 340 (1992).

4 17 U.S.C §101

to all line drawings of a perceived simplicity. While pure characters have received "little or no protection" through the courts, cartoon characters "tend to receive far more protection than literary characters."[5] As Professor Kurtz puts it, characters are variable and elusive, having only tangible existence in the specific words, pictures, and sounds created by its author.[6] Yet, characters are not static and may change in physical appearance, personality and mannerisms.[7] In this article, only cartoon characters will be discussed.

Today, cartoon characters have gotten more attention and their influence have become a symbol of a nation's global power.[8] Cartoons are no longer confined to children and teens but as a cultural object that can be enjoyed by everyone. Thus, you can see cartoon characters such as Pokémon appearing on All Nippon Airlines (ANA) jets or faces of Hello Kitty appearing on practically anything imaginable. Thus, Sanrio, the company owing the intellectual property (IP) to Hello Kitty proclaims the company as an IP licensing company with professional designing capabilities.[9] Similarly, in US, Mattel's senior counsel states that Mattel, owner of Barbie®has "an intellectual property, not a doll…"[10] The increased ability to manufacture and market products bearing a character's image makes a character a more valuable commodity.[11]Indeed, characters have been exploited in connection with a range of merchandise and have been used in "extensive licensing programs to promote everything from children's toys to fast-food restaurants".[12]

A. Copyright protection for characters

With their rising importance both culturally and economically, copyright protection generally is the theory that owners can prevent the unauthorized use of a character. Copyright enables authors to control the use of their intellectual creations. Its primary purpose is to encourage creativity and the dissemination

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5 Kurtz, *supra* note 2, at 451.

6 *Id*. at 430.

7 *Id*. at 431.

8 Anne Allison, *Portable Monsters and Commodity Cuteness Pokémon as Japan's New Global Power*, 6(3) POSTCOLONIAL STUDIES 381 (2003).

9 Sanrio, *About Sanrio*, available at: http://www.sanrio.com.tw/AboutSanrio/AboutSanrio.aspx(last visited 19/01/2016).

10 Lisa Bannon, staff reporter of THE WALL STREET JOURNAL, WSJ Interactive Edition, January 6, 1998.

11 PHILLIP E. PAGE*, Licensing and Merchandising of Characters: Art Law Topic for AALS 1994*, 11 U. MIAMI ENT. & SPORTS L.REV. 421,422(1994).

12 *See* Conan Properties v. Conans Pizza, 752 F.2d145, 150 (5th Cir.1985).

of creative work, so that the public may benefit from the labor of authors.[13] Copyright, unlike patents, is a relatively easy intellectual property right to be obtained, an author only needs to independently create a work and fixed on to a tangible medium of expression.[14] Although the Supreme Court in *Fiest* indicated that originality is the *sine qua none* of a copyright,[15] the requirement only requires a modicum of creativity, which requires an intellectual contribution instead of the long recognized "sweat of the brow." [16]

However, copyright protection for characters was a debatable topic and courts have been reluctant to grant independent copyright protection for characters unless they satisfied the "story being told" test.[17] It was only until *Nichols v. Universal Pictures Corp*.,[18] Judge Learned Hand offered the possibility that, independent of plot, copyright could protect fictional characters if they were distinctly delineated.[19] Judge Hand also noted that "[i]t follows that the less developed the characters, the less they can be copyrighted; [and] that [this] is the penalty an author must bear for making [the characters] too indistinctly."[20] This is why courts have been more willing to protect characters that have a visual component than to protect more abstract characters such as literary characters.[2121]

There is a reason for cartoon characters to receive copyright easierthan the

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

14 *See* 17 U.S.C. § 102(a) (1990) ("Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device...").

15 *See* Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 340 (1991).

16 *See* generally Feist, 499 U.S. at 353-54 ("The 'sweat of the brow' doctrine had numerous flaws, the most glaring being that it extended copyright protection in a compilation beyond selection and arrangement-the compiler's original contribution-to the facts themselves ... 'Sweat of the brow' courts thereby eschewed the most fundamental axiom of copyright law-that no one may copyright facts or ideas... Without a doubt the 'sweat of the brow' doctrine flouted basic copyright principles.").

17 *See* Warner Bros. Pictures, Inc. v. Columbia Broadcasting System, Inc., 216 F.2d 945, 950(9th Cir.1954), *cert.denied,* 348 U.S. 971 (1955). ("a character may only be protected under copyright law if the character constitutes the story being told, but of the character is the chessman in the game of telling the story, he Is not within the area of the protection afforded by copyright").

18 45 F.2d 119 (2d Cir.1930).

19 *Id*. at 121.

20 *Id.* at 122.

21 *See* Walt Disney Prods. v. Air Pirates, 581 F2d. 751, 755 (9th Cir, 1978), cert denied, 439 U.S. 1132 (1979). ("When the author can add a visual image, however, the difficulty of [determining distinct delineation] is reduced)".

other types of characters. Copyright, after all, protects the expression of ideas, rather than the idea itself. The readily identifiable visual image inherent in cartoon characters makes it easier to identify these characters as "expressions" thus allowing courts with higher degree of comfort in determining copyrightability and granting protection to cartoon characters.[22] A leading case in cartoon character protection is *Walt Disney Productions v. Air Pirates*,[23] where the court found that the Mickey Mouse character to be protectable apart from the stories which he appeared. The court also noted that most cases dealing with cartoon characters "have considered the character's personality and other traits in addition to its image".[24]

From the discussion thus far, we can already assume that there are basically two types of cartoon characters: the first type being like Hello Kitty with an image and very limited story line or description of personality, while on the other hand, there are characters which distinctive personality and traits and a set of collection of stories like those in the Disney series. Regardless of the story or personality, character merchandising is based on the image of the character itself. In order for a person or corporation to utilize the image in the promotion of goods or services, the person or corporation intended to use the image will have to get a license from the copyright owner to avoid copyright infringement. However, the continuation of this practice seems to be doubtful in light of some of the recent cases regarding to artistic works.The Circuit Courts seem to be broadening the scope of fair use in this category, which calls into question whether the future of character merchandising will be compromised to a more fundamental question whether the current copyright system is in need of a major revision.

B. Copyright protection for characters and fair use

By granting exclusive right to an author provides an incentive to create and invest in creation, but it can also undercut the goals of copyright. However, since every artist builds upon the creativity of the past, and the creations of others are among the materials used to create new works of art.[25] Authors must be free to refer to, expand upon, criticize, and even poke fun at the existing work of others, the doctrine of fair use as a safeguard to limit the scope of the copyright monopoly, paving the way for the new expression of ideas.[26] The doctrine of fair use, often described as an "equitable

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22 Spahn, *supra* note 3, at 338.

23 *Walt Disney*, 581 F2d.

24 *Id*. at 757 n.14.

25 Kurtz, *supra* note 2, at 438.

26 Tracey T. Gonzalez, *Distinguishing the Derivative from the Transformative: Expanding Market-Based Inquiries in Fair Use Adjudications*, 21 CARDOZO ARTS & ENT L.J.229-230 (2003)

rule of reason",[27] has been codified by Congress in 1976, and the doctrine is expressed in terms of four non-exclusive statutory factors to be considered in fair use analysis.[28] However, what is fair is fact-specific and resistant to generalization, development of the doctrine of fair use is not from deduction from principle but from concrete cases.[29]

The statute, however, gives little guidance how to recognize fair use and judges do not share a consensus on the meaning of fair use.[30] Thus, the question sometimes arises whether a finding of fair use is a finding the accused use is simply not infringing, because it is not within the scope of the rights protected by copyright, or is rather a finding of fair use is a finding that, although the use within the scope of those rights, it is also within a more particular exception to them-not infringing as such but would-be-infringing-but-for the exception.[31] In *Walt Disney Productions,*[3232] the Ninth Circuit denied a finding of fair use because while Disney sought only to foster "an image of innocent delightfulness," Air Pirates centered around "a rather bawdy depiction of the Disney characters as active members of a free thinking, promiscuous, drug ingesting counterculture",[33] using Factor three, the Ninth Circuit found Air Pirates has taken more than enough to be satirized. In addition, Air Pirates was parodying on life and society in addition to parodying Disney characters. The court indicted that if Air Pirates did not focus on how the characters looked, but rather parodied their personalities, their wholesomeness and their innocence, the copying could have been justified more easily.[34]

III. Supreme Court's interpretation offair use

A. From commercial to transformative

Some seminal cases from Supreme Court also gave much uncertainties.

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27 Kate O'Neill, *Against Dicta: A Legal Method for Rescuing Fair Use from the Right of First Publication*, 89 CAL. L.REV. 369,373(2001).

28 *See* 17 U.S.C. § 107 for the four factors in fair use: (1) the purpose and character of the use; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) effect of the use upon the potential market for or value of the copyrighted work.

29 Lloyd. L. Weinreb, *Fair's Fair: A Comment on the Fair Use Doctrine*, 103 HARV. L. REV. 1137, 1138 (1990).

30 Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1106 (1990).

31 Lloyd L. Weinreb, *Fair Use*, 67 FORDHAM L. REV. 1291, 1292 (1999) at note 12.

32 *Walt Disney*, 581 F2d.

33 *Id*. at 753.

34 *Id*. at 756.

In *Sony*, decided in 1984, the Court held that individual's copying of television program for later viewing was noncommercial fair use, but suggested in dicta that when the defendant's use is "commercial" there is a presumption of harm to the potential market for the plaintiff's copyrighted work under the fourth fair use factor.[35] A year later in *Harper& Row*, the court repeated the board Sony dictum that every commercial use is presumptively unfair and announced that the fourth factor, the factor of harm to the potential market, is "undoubtedly the single most important" of all the factors.[36]

In 1994, the Supreme Court made its decision on fair use in *Campbell v. Acuff Rose Music, Inc*.,[37] in regard to whether the commercial parody of Roy Orbison's rock ballad song *Oh, Pretty Woman* by a rap group 2 Live Crew was a fair use. Earlier, the Court of Appeals for the Sixth Circuit reversed and remanded that song's blatantly commercial purpose prevents this parody being a fair use.[38] However, the Supreme Court reversed, rejecting the notion that the commercial nature of the use was a definite factor. The court sees parody, like other comment and criticisms under Section 107, is to quote from exiting material of the prior author's composition to create a new one, at least in part, comments on that author's work.[39]

The Supreme Court unanimously adopted the notion of"transformative use". The court, drawing largely on an influential article in the Harvard Law Review,[4040] the court stated that "[t]he central purpose" of the investigation under the first factor in Section 107 is to determine whether the use supersedes the original work or" instead adds something new, with a further purpose or different character, altering the first with a new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is "transformative".[41] The fourth factor, for the court is market substitution, not from the criticism. For the court, parody, pure and simple, is unlikely that the work will act as a substitute of the original, since the two works usually serve different market functions.[42] The

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35 *See* Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, at 451, 454-55 (1984).

36 *See* Haper & Row, Publishers, Inc. v. Nation Enters., 471, U.S. 539, at 566 (1985).

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

38 *See* Acuff-Music, Inc., v. Campbell, 972F.2d1429, 1439 (6th Cir.1992).

39 *Campbell*, 510 U.S. 569-570.

40 Leval*, supra* note 30, at 1111. ("I believe the answer to the question of justification turns primarily on whether, and to what extent, the challenged use is *transformative*. The use must be productive, and must employed the quoted matter in a different manner or for a different purpose from the original.").

41 *Campbell*, 510 U.S. at 579.

42 *Id.* at 570-571.

goal of transformative use, like in *Folsom v. Marsh*,[43] make sure fair use intends to protect the enrichment of society.

B. Transformativeness as the *sine qua none* for fair use

This ruling has overturned the emphasis of fourth factor in both *Sony* and *Harper*. Because, if the presumptive of unfairness of commercial use was really a rule, virtually all cases would be easily decided as commercial motivation is virtually ubiquitous in publishing.[44] The court further stated that transformative uses "lie at the heart of fair use doctrine's guarantee of breathing space within the confines of copyright, and the more transformative the work, the less will be the significance of other factors, like commercialism, that may weigh against the finding of fair use".[45] The court now refocused on the interdependence of the first and fourth factors.[46] The first factor look primarily as whether the use made of the original seeks to *transform* the taken material in to a new purpose or new message, distinct from purpose of the original. The fourth factor looks at the harm which the secondary work may do to the copyright market of the original by offering itself as a substitute (for either the original or its derivative).[47] However, the market impairment should not turn the fourth factor unless it is reasonably substantial, that the incentive to create will be impaired.[48]

Professor Reese has shown in his study of appellate cases involving fair use decided between *Campbell* and the end of 2007, appellate courts have in fact been almost universally consistent in defining transformative use as a use that is for a new, different purpose, not a use that entails new expression content.[49] Thus, as the Ninth Circuit has stated "even making an exact copy of a work may be transformative so long as the copy serves a different function than the original work."[50] The transformative use has become something close to the *sine qua none* in fair use cases. [51] But transformative use has its own problems, for

43 *See* Folsom v. Marsh, 9 F. Cas. 342,345(C.C.D.Mass, 1841) (No.4901).

44 [44] Pierre N. Leval, *Campbell v. Acuff-Rose: Justice Souter's Rescue of Fair Use*, 13(19) CARDOZO ARTS & ENT L.J.19, 21(1994).

45 *Campbell,* 510 U.S. at 579. (internal citation omitted).

46 Leval, *supra* note 44 at 22.

47 *Id*.

48 Leval, *supra* note 30, at 1125.

49 R. Anthony Reese, *Transformativeness and the Derivative Work Right*, 31 COLOUM. J. L. & ARTS 467, 485 (2008).

50 Perfect 10, Inc. v. Amazon.com, Inc., 508 F.3d 1146, 1165 (9th Cir. 2007).

51 HOWARD B. ABRAMS, 2 THE LAW OF COPYRIGHT § 15:42.30 (2d 1991 & Supp.2010).

example, should transformative use be applied equally to news, photographs, paintings, novels and songs, or might it be that it is more relevant to only some of these form of expression?[52] Or restrictively, just limited to works that convey a parodic purpose?[53]

Judge Leval left this question open as he merely stated in his article that, transformative uses may include criticizing the quoted work, exposing the character of the original author, proving a fact, or summarizing an idea argues in the original in order to defend or rebut it. They also may include parody, symbolism, aesthetic declarations, and innumerable other uses. [54] This question becomes eminent in some of the cases regarding to appropriation arts,[55] the interpretation of fair use on these artistic works could mean the similar application to character images which calls into further analysis.

IV. Fair use in appropriation arts

a) The story of the two *Koons*

Long before the much debated *Cariou*,[56] there were two cases decided by Second Circuit on appropriation art. The first case, prior to *Campbell*, in *Rogers v Koons (Koons I)*,[57] Koon involved the issue of copyright infringement in the defendant's sculpture entitled String of Puppies. Jeff Koons had appropriated a black and white photograph by Art Rogers, which depicted a couple seated on a park bench surrounded by eight puppies. Koons had instructed his artisans to copy the image in the photograph in the form of a sculpture. The appropriationist work was comprised of a newly clown-faced couple ecstatically embracing eight blue puppies which changed not only the medium and size of the original photograph

52 Matthew D. Bunker & Clay Calvert, *The Jurisprudence of Transformation: Intellectual Incoherence and Doctrinal Murkiness Twenty Years after Campbell v. Acuff-Rose Music*, 12(1) DUKE L. & TECH. REV.93, 127 (2014).

53 *Acuff-Rose*, 114 S. Ct. at 1180-81 (Kennedy, J. concurring). (A secondary work made for profit, no matter how creative, is not a fair use unless it evinces a parodic function).

54 Leval, *supra* note 30, at 1111.

55 David Evans, "Introduction: Seven Types of Appropriation" in *Appropriation* (David Evans ed) (MIT Press, 2009) at pp12-13. (Appropriation arts, as a genre of contemporary art is often an ideological critique that hijacks "dominant words and images to create insubordinate, counter messages".)

56 Cariou v. Prince, 714 F.3d 694 (2d Cir.2013).

57 Rogers v Koons, 960 F2d. 301 (2d Cir.1992.), *cert.denied*, 113 S. Ct. 365 (1992).

but also change the entire feel of the original image.[58] In that case, Koons came off as a money-mad opportunist who did not even personally execute the projects he conceived. Although the defense was on "parody" fair use, this defense failed as the judge viewed "the copying was so deliberate… their piracy of a less-well known artist's would escape being sullied by an accusation of piracy."[59]

In 2006, the Second Circuit decided *Blanch v. Koons (Koons II)*,[60] in which the defendant used a portion of an image known as the "Silk Sandals" by the plaintiff. The defendant turned the work into the "Niagara", in a widely exhibited $2 million, seven painting "Earthfun-Ethereal" series. Koons' defense was still fair use, but this time the court acknowledged the use was "transformative" in that it added value to and fundamentally repurposed the original photograph.[61] This time, the court found fair use in" Niagara" as a critical commentary on popular media culture. Judge Sacks concludes:

> *Although it seems clear enough to use that Koons use of a slick fashion photograph enables him to satirize life as it appears when seen through the prism of slick fashion photography, we need not depend our own poorly honed artistic sensibilities… We concluded that Koons thus established a "justification for the very act of his borrowing" whether or not Koons could have created" Niagara" without reference to " Silk Sandals", we have been given no reason to question his statement that the use of an existing image advanced his artistic purpose".* [62]

The decision in *Koons II* have been noted by Professor Jaszi as a significant move away from the Modernist author-worship and an early signal of a perceptible shift in how courts will increasingly understand the relationship between author and work. [63] It represents, in fact, a rejection of grand narrative of authorship and "author-ity", in favor of an approach that distributes attention and concern across the full range of participants in the processes of cultural production and consumption, in other words, the birth of postmodern copyright.[64] This means, a general loosening of authors' and owners' authority over, works and greater space for the free play of the meaning on the part of audience members and follow-up

58 *Id*. at 303-4.

59 *Id.* at 303.

60 Blanch v. Koons, 467 F3d. 244 (2d Cir.2006).

61 *Id*. at 247-49.

62 *Id.* at 255.

63 Peter Jaszi, *Is There Such a Thing as Postmodern Copyright?*, 12 TUL.J.TECH.&INTELL. PROP.105, 116 (2009).

64 *Id*. at 116.

users who bring new interpretations.[65]

b) *Cariou* and interpretation of transformative use

The uncertainty in transformation was reflected in the varying definitions that courts adopted in *Campbell*'s wake from the narrowest rule that transformation applies solely to parodies, to a definition that asks whether a work criticizes or comments on the original, to a broader definition that looks to whether a work's purpose is different from that of the original.[66] After the *Koons*, the same court, in *Cariou v. Prince*[67] held that Prince's unlicensed appropriation of Patrick Cariou's photographs, *Yes Rasta*, a book of classical portraits and landscape photographs that he took over the course of six years spent living among Rastafarians in Jamaica, with many what may consider to be only minor modifications, and which served similar expressive purposes, albeit in very different manners, was fair use rather than copyright infringement.

Writing for the panel, Judge Parker held that "the law does not require that a secondary use comment on the original artist or work"[68] . Thus, *Cariou* took one further step by adopting a rule that a work can be transformative-even when the work serves the same purpose as the original-as long as it adds "new expression, meaning, or message" adopting *Campbell*'s language in its broadest form.[69] Although the art community at large has embraced the genre, it is rather difficult to distinguish between derivative and transformative works and judges may be likely to make distinctions based on aesthetic taste.[70] This somehow, violates the aesthetic neutrality in copyright law, as "it would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations, outside the narrowest and most obvious limits".[71]

The court however, gave a rather interesting reasoning, it found what was essential to determining that purpose was not the explication of the artist but rather

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65 *Id.*

66 William W, Fisher III *et al*., *Reflections on the Hope Poster Case*, 25 HARV. J. L. &TECH. 243, 321-22 (2012).

67 Cariou v. Prince, 714 F.3d 694 (2d Cir.2013).

68 *Cariou*, 714 F.3d at 698.

69 *Copyright Law-Fair-Use-Second Circuit Holds That Appropriation Artwork Need Not Comment on the Original to Be Transformative-Cariou v. Prince, 714 F.3d694 (2d Cir.2013)*, 127 HARV. L. REV. 1228, 1233 (2014).

70 *Id*. at 1235.

71 *See* Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 251 (1903).

"how the work in question appears to the reasonable observer."[72] This approach is similar to the model proposed by Professor Heymann, where she argued that the relevant question in transformativeness should be the degree of –the amount of interpretive distance that the defendant's use of the plaintiff's work creates.[73] If that distance is significant enough to create a distinct and separate discursive community around the second work, the defendant's use is more likely to be transformative (and perhaps, fair).[74] The focus is therefore no on the author's intent but on reader's reactions.[75]

This is a significant change, by doing so, the court change the process of finding transformative use.[76] Thus, the court found that the district court had focused the fourth factor in the wrong place.[77] The point of further factor, according to the Second Circuit, was not to determine whether the secondary use suppressed or destroyed the market of the original, "but whether the secondary use usurps the market of the original work."[78] In order to usurp the market of the original, the court reasoned that the secondary work must hijack the likely audiences of the original work by presenting that audience with the same content as that original work.[79]

c) *Cariou* and the four factors in fair use

From the sequence of cases mentioned thus far, the approach from the Supreme Court finds fair use from noncommercial use in *Sony* to factor four as the most important factor in *Haper* to *Campbell* that a new works needs to be transformative, parody and comments on the original in with the new emphasis on factor one. In the Circuit Courts, notably the Second Circuit, denies fair use in *Koons I* as a parody, to allowing fair use in *Koons II* by accepting that the new work is transformative to *Cariou*, in which works that served the same purpose will also be a fair use, as long as it is transformative without the need to be a parody or comment on the original, even if their uses are the same. Or, even if the

72 *Cariou*, 714 F3d. at 707.

73 Laura A. Heymann, *Everything is Transformative: Fair Use and Reader Response*, 31 COLUM. J. L. & ARTS. 445, 449 (2008).

74 *Id.*

75 *Id.*

76 Brockenbrough A. Lamb*, Richard Prince, Author of the Cather in the Rye: Transforming Fair Use Analysis*, 49 UNIV. RICHMOND L.REV.12931309. (2015).

77 *Cariou*, 714 F3d. at 708.

78 *Id.*

79 *Cariou*, 714 F3d. at 709.

work is essentially commercial in nature.[80] These cases spanning for almost three decades, witnessed the trend that the notion of authorship is losing its authority in copyright.[81]

This might sound like a good news in the digital era, in which many works are re-mixed, mash-up, not to mention the number of fan-based creations. Some of these creations, not only can they find fair use but even copyrightable under section 103 as long as it does not disturb or substitute the market of the original work. A new work can said to have new aesthesis, meaning or message because it finds a new market for the new work which will not have impact on the market of the original. This is evident in the judgement as the court spent a paragraph listing the A-list celebrities to the dinner that the gallery Gagosian hosted, emphasizing on the two million or more dollars sold on Prince's work in comparison to just over $8,000 Cariou made from his work *Yes Rasta*.[82] As in the court's words, Prince's work appeals to an entirely different sort of collector than that of Cariou's.[83] In addition, there was "nothing in the record to suggest that Cariou would every develop or license secondary uses of his work in the vein of Prince's artworks" or "that Prince's artworks had any impact on the marketing of the photographs,[84] hence, factor four was also held in Prince's favor.

In factor three the amount copied also deem to be less relevant since factor one and four have been met. The court, by citing *Campbell* stated that the law does not require that the second artist may take no more than is necessary. And again by citing *Campbell*, the secondary use "must be [permitted] to 'conjure up' at least enough of the original" to fulfill its transformative purpose.[85] The court decided that Prince used key portions of certain of Cariou's photographs, but Prince transformed those twenty-five photographs into something new and different, and as a result, factor three weights in Prince's factor.[86] The court, however, gave no standard as how they conclude that Prince's work is something new and different from Cariou's photographs. This is also the concerned raised by Judge Wallace, in his partial dissent, while admitting he is not an art critic or expert, wonders how

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80 *Cariou*, 714 F3d. at 708.

81 Martha Woodmanse, *On the Author Effect: Recovering Collectivity*, 10 CARDOZO ARTS & ENT. L.279 (1992). (By "author" we mean an individual who is the sole creator of a unique "work" the originality of which warrants their protection under was of intellectual property known as "copyright" or "authors".)

82 *Cariou*, 714 F3d. at 709.

83 *Id.*

84 *Id.*

85 *Id.* at 710.

86 *Id.*

the majority of the court in its appellate role can "confidently" draw a distinction between the twenty-five works that it has constituted as fair use and the five works that do not readily lend themselves to a fair use determination.[87]

d) Cases after *Cariou*

In subsequent cases, the Ninth Circuit held a similar judgement to *Cariou*, in *Seltzer v. Green Day, Inc*.[88] Plaintiff Dereck Seltzer is an artist illustrator. In 2003, he created ScreamIcon, a drawing of a screaming contorted face. Seltzer made copies of Scream Icon, including large posters and smaller prints with adhesive backs, which he sold and give away.[89] Defendant Roger Staub is a photographer and professional set-lighting and video designer, he was arranged by Performance Environment Design to create a video backdrop for Green Day, a rock band's performance. Satub created a four minute long video and throughout the video, thecenter of the frame is dominated by an unchanging, but modified, Scream Icon. Staub used the photograph of Scream Icon, cut out the image of Scream Icon and modified it by adding a large red "spray-painted" cross over the middle of the screaming face. He also changed the contrast and color and added black streaks running down the right side of the face.[90]

In finding fair use, the court acknowledges the infringing work as transformative as long as new expressive content or message is apparent. While Seltzer's Scream Icon is meant to address themes of youth culture, skateboard culture, insider/outsider culture and an iconic reference to the culture and time of Los Angles when the image was made. Satub and the Green day video is not simply a quotation or republication but a street-art focused music video about religion.[91] Hence, by citing *Cariou*, the court find the infringing work transformative even if the work makes few physical changes to the original or fails to comment on the original,[92] while the purpose is similar, retained its function as street art in "essentially a street-art focused music video".[93] In considering the fourth factor, the court favors a finding of fair use if the allegedly infringing use does not substitute

87 *Cariou,* 714 F3d. at 713-14 (Wallace J., concurring in part and dissenting in part).

88 Seltzer v. Green Day, Inc. 725 F3d.1170 (9th Cir.2013).

89 *Id*. at 1173.

90 *Id*. at 1174.

91 *Id*. at 1176.

92 *Id*. at 1177.

93 Kim J. Landsman, *Does Cariou v Prince Represent the Apogee or Burn-Out of Transformativenesss in Fair Use Jurisprudence? A Plea for a Neo-Traditional Approach*, 24 FORDHAM INTELL. PROP. MEDIA & ENT. L. J. 321, 367 (2014).

for the original and serves a "different market functions".[94]

V. Implicaton of *Cariou* on character merchandising

Unlike compulsory licensing in patent, there are no prerequisite to negotiate or to compensate the owner of copyright.If one seeks to use a character without securing for a license, or to notified the copyright owner prior to the use and subsequently succeeds to defend the use via fair use under the *Cariou* standard, makes one wonder whether licensing agreements are needed after all.

As mentioned earlier, characters are divided two different categories, those with a story line and distinct personality and those without, but in either case, characters are able to stand independent of the plot or the story it originated and to be used for some other purposes or with some other means unless the character has been in existence for a period of time in with the character has also established its connection with the copyright owner, in which trademark could serve to protect the copyright owner's need to cease confusion for the customers. Following the current interpretation of fair use, the issues to character merchandising are becoming apparent:

1. For the first factor: it is problematic for characters to establish their market or potential customers, as characters are able to be established in both low-end and high-end markets, hence deciding whether the use is transformative will be more difficult.
2. For the second factor: it will be difficult to assess whether factor two will be satisfied if the finding of transformativeness in factor one is difficult.
3. For the third factor: the copyright of the character independent of a plot or story is the image in total, hence, the use of an image means taking the entire work.
4. Factor four: whether a taking is commercial in nature is contingenton whether the market or customer could first be defined, similar to factor one above, the murkiness of market definition will make fair use assessment more troublesome.

A. Defining the market

Although *Campbell* has overruled the emphasis over factor four in *Sony* and *Harper*, the recent Circuit court cases seem to revive theimportance of the commercial nature but on different reasoning. By focusing on the market of the

94 *Green Day*, 725 F3d.1170 at 1179.

original work, one needs one to assess how the market is defined.[95] Professor Weinreb gave an example on this question, a German translation of *Uncle Tom's Cabin* would not likely to affect the market of the book in English; but if the relevant market were for the book in any language, an effect is easy to suppose.[96] Professor Goldstein has pointed out, that courts applying the potential factor have generally inclined to identify potential markets with the market in which the work was first introduced or, at most, which closely bordering markets.[97] However, as character merchandising could cover a broad area of the licensing market, identify the market could be rather difficult.

Asides from the unclear definition of licensing market, *Cariou*'s approach also blurs the line between transformative and derivative work markets.[98] Hence, "if a court finds that defendant's use of an author's work is 'transformative' because it reaches new markets that makes the work available to a new audience, that finding could risk usurping the author's derivative work right. Ultimately, those rights could hinge on a 'race to the market' for new and sometimes unanticipated uses."[99] As Professor Goldstein has illustrated, if the infringer who copies a novel verbatim violates only the right to reproduce, for he has created neither independent expression nor the new market. But, motion pictures, translations and comic strips based on the novel will all infringe the derivative right because they add new expressive elements and serve market that differ from the market in which the original was first introduced.[100] By distinguishing between reproductive work market and derivative work market, a copyright holder is able to extend the new and unexplored markets for the future. So in conjunction with section

95 Weinreb, *supra* note 31, at 1296.

96 *Id.*

97 Paul Goldstein, *Derivative Rights and Derivative Works in Copyright*, J. COPYRIGHT SOC'Y U.S.A. 209, 233 (1982).

98 *See* 17 U.S.C. § 110, "derivative work" is a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications, which, as a whole, represent an original work of authorship, is a "derivative work.". *See Campbell*, 510 U.S. at 579, ("a transformative work is one that adds "something new, with a further purpose or different character, altering the first with new expression, message or meaning.")

99 *See Fair Use: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. 10 (2014) (statement of June M. Besek, Exec. Dir. of the Kernochan Center for Law, Media and the Arts and Lecturer-in-Law, Columbia Law School), available at http://judiciary.house.gov/_cache/files/83d5bf33-9587-4908-849fe63edc1b49f5/012814-testimony---besek.pdf(last visited 19/01/2016).

100 Goldstein, *supra* note 97, at 217.

103 of the Copyright Act, it may allow copyright owners to protect a "chain" of works, even though works at the end bear little or no resemblance to the original works of the chain.[101]

As stated earlier, characters are fluid in nature and characters will also grow and develop, both in its image as well as its personality. Derivative work rights fosters the development and maturity of characters for the author without the fear of being deprive the right to the future products of their work. This is also the reason why, despite the numerous fan-fiction created after the original work, some of them with originality and creativity far surpassing the original still claims to be non-commercial in nature and claim not to infringe any copyright of the original. Hence, some argued that fan fiction should fall under the fair use exception to copyright because fan fiction involves the production addition of creative labor to a character's characteristics, it is noncommercial, and it does not act as an economic substitute for the original copyrighted work.[102]

B. New purpose, new insight and new aesthetics (a focus on content?)

Another issue regarding to fair use is the new interpretation of "new purpose, new insight and new aesthetics". As stated earlier, after the universal adoption of transformative test in fair use, courts have been looking into the purpose of the secondary use rather than the content of the secondary use. By doing so, the court avoids the need to assess secondary user's contribution and the need to evaluate whether the use is more creative or original, to do value judgement, in which the judges are not trained to do so.[103] Like Professor Reese questioned in his article, how should a court identify the purpose that the defendant's use is to be compared?[104] Is this the purpose that the author actually had in mind when creating the work, or is it the purpose that a reasonable author creating this type of work have had in mind?[105] However, as *Green Days* shows, even if the allegedly infringing work made few physical changes to the original and fail to comment on the original, it is fair use because "new expressive content" was added. The Circuit Courts now are looking into the content of the works and actually making comparisons between the two.

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101 Mark A. Lemely, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 1018 (1997).

102 Rebecca Tushnet, *Legal Fictions: Copyright, Fan Fiction and a New Common Law*, 17 LOYOLA of LOS ANGLES ENT. L. REV. 651, 654 (1997).

103 *See* Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 251-252 (1903) (Holmes J,).

104 Reese, *supra* at note 49, at 494.

105 *Id.*

Professors Bunker and Calvert have summed up three types of methods in which court find the secondary work to add "new expression, meaning or message".[106] First, new insights added by the borrower but this "new insight" must relate back to the borrowed work and provide some degree of commentary on that work.[107] Second type involves sufficient aesthetic alteration of the original work, without requiring new insights directed toward borrowed work, in other words, this approach requires that the new work perform some unspecified degree of "creative metamorphosis" to the original work.[108] *Cariou*'s case is categorized under this approach. The third type, is the use for a new purpose, in which an altered image devoid of any new elements or changes can constitute fair use if the secondary image is deployed for a very different purpose or function,[109] such as illustrated in Nunez v. Caribbean International News Corp.[110]

If courts are now assessing the actual content of the two works, this means the author basically have lost her absolute claim for derivative rights but limit to only reproduction rights. By depriving the derivativerights away from the original author could have two consequences: copyright works might be reluctant to be introduced promptly, until the copyright owner feels the work is mature enough to market; on the other hand, the practice might spurred a wave of secondary creations, like fan-based creations while believing that fair use is now easier to obtained. However, whether the court has the ability to establish whether the secondary work is more transformative than the original is questionable, as witnessed in Judge Wallace's partial dissent in *Cariou*, as there is no standard to determine to what will consider as new purpose, new insight and new aesthetics. To Professors Bunker and Calvert, the court could not seem to articulate standard beyond a purely impressionistic sense of how much aesthetic change the court "felt" was sufficient to constitute transformation.[111]

VI. Way forward for character merchandising

Compare to patent, copyright is a relatively easy form of intellectual

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106 Bunker, *supra* note 52, at 102-116.

107 *Id*. at 106.

108 *Id*.

109 *Id*. at 116.

110 235 F.3d 18 (1st Cir 2000). (The case concerns photos of a beauty pageant winner named Joyce Giraud in various stages of undress and were originally taken as part of her modeling portfolio. The images, however, were considered pornographic by some people, thus, sparking a newsworthy controversy "over whether they were appropriate for a Miss Puerto Rico Universe".)

111 Bunker, *supra* note 52, at 108.

property right to be obtained, the courts attitudes are also favoring the easier method to find a secondary work to be fair use, instead of allowing the original author to capture the contribution by the second author. However, there are still some uncertainties for the original as well as the secondary author, because not all original authors belong to the multinational content industries like Disney. Characters can be created by young and emerging artists, or simply a fan based on his or her favorite story or on-line games. While the more liberal interpretation might favor fan-based creations from copyright infringement, on the other hand, emerging artists might be vulnerable from their characters been appropriated by more established enterprises. Since the appropriation of the character is the appropriation of the copyright in total, the current interpretation of fair use makes factor three redundant.

Since no one can invent or create any work out of vacuum, it is necessary for inventors or artists to base on the creations of the earlier work. By being the first to create does not necessary mean that the first author is able to control or create all subsequent creations. Fair use is designed to balance public's need for new creations as well as to balance the right between the original author and secondary authors. While in the past the court has been applying the fair use in favor of the original author, the courts are now in favor of the secondary author while believing that it will further serve the purpose of intellectual property clause under the Constitution. Hence, the balance approach shifts from the pro-author attitude as in *Sony* to a more pro-defendant attitude in *Cariou*.

As the court is focusing and comparing the original and secondary work now, perhaps the court should do more than using the potential customer market to decide whether the market for original work will be usurped. Since the market for character is hard to define, the focus should be on what the secondary author has done with the original work to decide whether fair use should be allowed. This also corresponds to the court' shifting focus from purpose of the use to the content of the use. This will need to be decided on a case by case basis, but in this article, some recommendations is proposed for the court to assist the court in their decision making.

A. Defining the market

The courts have been emphasizing that secondary work wouldnot usurp the market of the original or in other words, providing the same content as that of the original. The court is mainly focusing on the reproduction right here but notthe derivative market[112]. In the earlier periods, courts will find fair use to certain uses

112 Tracey *supra* note 26, at 231.

such as criticism, comments or parody because these are unlikely the uses that the original author will be willing to grant a license. Like in *Air Pirates* case, the court did not support the use of Disney characters to comment on the counterculture but said that fair use might be granted if the comment was on the Disney characters themselves. This is dramatically different from *Cariou*'s case in which Cariou made no comment on the original work but instead used the original work to comment on something else. By using original work for some other purpose that has no connection or relevance with the original work, the secondary author is reaching into the scope of original author's derivative right. So, without having to get the consent or license to use the original work but focusing on the end result of the work, the courts have further blurred the difference between transformative and derivative works.

As Judge Lavel stated in his article, the more the appropriator is using the material for new transformed purposes, the less likely it is that appropriative use will be a substitute for the original, and there for the less impact it is likely to have on the protected market opportunities of the original.[113] In here, Judge Lavel emphasized the importance of the original but not derivative works, hence, the literal meaning is that it is the reproduction right of the author that is been protected but not derivative right.Unlike patent which has a scope of protection based on the patent claims, derivative right gave the original author too much rights which are uncertain and a chance to cash on secondary authors,[114] and nowadays the privilege of producing " derivative works" is reserved generally for those who have obtained copyright permission.[115] Hence, the market should be understood as the market in which the original work has appeared, without adding any new expression and that the works exactly the same as the original work, if this is the case, then no fair use should be granted *per se*.

B. Defining content

If we look back into the original article by Judge Leval which formed the basis for transformative use, the article emphasized on whether the secondary use adds value to the original, if the quoted matter is used as a raw material,

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113 Leval, *supra* note 44, at 23.

114 *See* Newberry's Case, Lofft 775, 98 Eng. Rep.913 (Ch 1773) (In the 18th Century, Copyright actually encouraged the creation of popular adaptations of preexisting works, on the ground that "an abridgement preserving 'the whole' of a work 'in its' sense is 'an act of understanding,' in the nature of a new and meritorious work").

115 Peter Jaszi, *On the Author Effect: Contemporary Copyright and Collective Creativity*, 10 CARDOZO ARTS & ENT L.J.293, 304 (1992).

transformed in the creation of new information, new aesthetics, new insights and understandings-this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society.[116] The main question is of justification, does the use fulfill the objective of copyright law to stimulate creativity for public illumination? [117] Judge Leval also listed some of the uses which might be transformative including parody, symbolism, aesthetic declarations and innumerable uses. In here, Judge Leval focuses on how the secondary author used the original work to give it a new meaning. The first fair factor calls for a careful evaluation whether the particular quotation is of the transformative type that advances knowledge and the progress of the arts or whether it merely repackages, free riding on another's creations.[118] There is no strict interpretation that only the purpose of the use is taken into consideration but not the actual content.[119] The only constraint in Judge Leval's article regarding transformative use is that extensive takings may impinge on the creative incentive and justification will likely be outweighed if the takings are excessive.[120]

Focusing on the content means the courts is to judge whether a work is transformative subjectively, this will be more difficult than looking into the purpose, market impact or other more easily determined factors. The issue is how should the court assess the content in future cases, qualitatively or quantitatively? In *Cariou*, the court remanded five pieces back but what seems differentiate the is not the degree of transofrmativeness but instead an almost quantitative comparison of the third fair use factor-what has been added, looking at the proportion of the copyrighted work that was appropriated and the percentage of the secondary work that the appropriated works comprises.[121]

C. Qualitative assessment of content – one proposal

Instead of quantitative assessment in how much the secondary work has added to the original work, the court might adopt the use of qualitative assessment instead. If content evaluation is required, Professor Lemley has suggested to borrow the concept of patent into copyright when considering about secondary works. Professor Lemley has categorized these secondary works, or improvers

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116 Leval, *Supra* note 30, at 1111.

117 *Id.*

118 *Id.* at 1116.

119 Judges often disclaim the role of art critic, but nonetheless assume it. *See e.g*. Hart v. Elec. Arts, Inc., 717 F3. 141, 154 (3rd Cir. 2013).

120 Leval*, supra* note 30*,* at 1112.

121 Landsman, *supra* note 93, at 348.

into three categories: First category are the minor improvers, who advances social utility by adding to the basic invention, but does not contribute enough to justify receiving a patent in her own right on the improvement. Second category are the significant improvers, virtually all work that qualifies as a "derivative work" will qualify as at least a significant improvement, since the additional effort involved in adapting the original work to a new market will almost always include original expression contributed by the improver. This is akin to the "blocking patent", in which the improver could not legally use the material covered by the original patent without permission, but the original patent owner similarly could not use the new material contributed by the improver. The third category are the radical improvers, in which the improver has made a major contribution to social value and hence, receives complete immunity under the "reverse doctrine of equivalents".[122]

Although Professor Lemley sought to give fair use to radical improvers even if there is a showing of direct market harm to the original copyright owner, he nonetheless requires the amount of the original work taken to be relatively small.[123] Professor Lemley also suggested that deciding whether an improvement is radical, one does not compare it to the whole of the original work, but merely to the portion of that work which has been copied. Furthermore, the term improvement "should not be read to imply a value judgement about the relative merit of the two copyrighted works, but simply to refer to the new material produced by the "improver", in other words, if the secondary work has transformed the copied version of the original work in such a major way that the value of the secondary work comes primarily from secondary author, and not from the original author.[124]

D. Qualitative assessment of content – issues with the proposal

Professor Lemley's proposals were made before *Cariou* and *Green Days*, it is reasonable that he will not have foreseen the change of attitude by the courts. Unlike his proposal, the courts seem to be oblivious to Factor three, and the courts are now making value judgements between the works. Furthermore, Professor Lemley's proposals did not focus on the definition of market and whether finding a substantially different market than the original work belongs to significant or radical improvement. The proposals gave some important insights into the current state of fair use. However, in the case of character merchandising, some additional changes need to be made.

In factor three, for example, since the use of the image is the taking of

122 Lemley, *supra* note 101, at 1019-1029.

123 Lemley, *Id*, at 1078.

124 Lemley, *Id*, at 1083.

the whole of the copyrighted work, under Professor Lemley's proposal, the use of image will not suffice fair use even if that is radical improvement, such as using the sole image to create a series of story line. Furthermore, if one should not compare the whole of the original work, but merely to the portion of that work which has been copied. This does not seem to work either for art cases like *Cariou* and *Green Days* or for character merchandising, because the use is on the whole of copyrighted work not just a portion. Furthermore, what will consider as change in a major way that the value comes primarily from the second author?

Applying this to *Cariou*'s case, has Prince transformed the work in such a major way because of what he has added or was it because his fame as an artist that sky-rocketed the value of the secondary work? If the later was the case, then this is an artistic arrogance of believing that creating expensive works for well-heeled buyers gave the artist a free pass to copy.[125] Recalling back that fair use is an equitable doctrine aiming to balance between the private interest of creation and the public's right to access and build upon the original work for further purposes. The current fair use interpretation is starting to realize the contemporary writing process which is largely collective and collaborative. Although the notion of romantic authorship might be eroding away, prohibiting authors to reach-through (borrowing the concept from patent) to all derivative works of her original work. Making fair use almost too easy to get is not the solution in the long run either.

E. Tailoring the proposal for character merchandising

For qualitative assessment for character merchandising, one needs to divide the character into several possible categories: one, a pure character image without personality or storyline, but the secondary author uses the image to develop further personality and story together with characters created by secondary author; two, a pure character image with personality or storyline but the secondary author uses the image to develop further image and personality; Third, character with personality and with a story line but the secondary author creates another personality or storyline for the character independent from the original; and fourth, the secondary author simply takes out the character from the original story or erase its personality for some independent use.

a. Use and develop the character together with character created by the second author

In this case, the character from the original author has no personality or storyline and was furthered developed by the secondary author. In addition,

125 Landsman, *supra* note 93, at 348.

the character is one of the many characters that blend into the whole storyline. Under Professor Lemley's definition, this type of use will be consider as radical improvement because not only has the character develop in greater detail but the value does not come solely because of the original character.

b. Use and develop the character with personality and story-line

In this case, the character has been used to develop into a story with features distinct personality, this could happen when characters were created by artists but no further development were made to develop this character. Like in *Green Days*, another artist or company might see the potential of this character and took the effort to develop this character. Under this scenario, this is akin to the significant improvement.

c. Creating another personality or storyline away from the original

This scenario is mostly commonly found in fan fictions, in which the fans created sequels or storylines which is different from the original. Often, fan fictions could create sequels that is away for the original meaning or personality of the original but fulfilling the fantasy of the fans. Again, this type of creation is considered to be significant improvements.

d. Use the character for some independent uses

In this case, the secondary user ignores whether the character has a personality or any story line but simply uses the character's image for other purposes. The uses could include using the image as promotional or decoration purposes. There might be some additional aesthetic effort made or slight alterations to the character, but these changes will not satisfy the originality test and is still substantially similar to the original, these might be consider as minor improvements.

e. Applying the proposal to these four scenarios

In these four cases, the first one has transform both the purpose as well as content of the original work and could be deem as fair use. For the second and third cases, there are transformation to some certain degree, but nonetheless it's obvious that secondary author has appropriated on the work of the original author. Under this scenario, there could be dispute as to whether there is transformative use and the court will likely have issues in deciding the case. Hence, like *Cariou*'s case suggest, the Circuit Court remanded the remaining five pieces to district courts was probably suggesting that the parties settle the remaining issue with payment to Cariou-something approaching what a reasonable loyalty would have been if

negotiated in the first place.[126] The case did indeed settle before the district court made further substantive rulings. [127] If this reasoning is correct, then is it the court trying to establish a liability rule for copyright? In this case, the blocking patent scenario could help to solve the issue since both parties will not be able to use each other's creations without infringement, by having this blocking scenario could let the secondary author has a better bargain position in negotiating for the license. Lastly, case four will likely be minor improvement in some cases, however, if the secondary user is able to use the image in ways no likely to be used for character merchandising, then fair use could still be granted, however, if the minor improvement is used in the area of ordinary character merchandising them it probably will be infringement.

VII. Conclusion

Character Merchandising is the backbone of multibillion industry and a representation of a country's soft power. Creating a robust copyright system will nurture the creation of this industry. However, this form of intellectual property right also needs to balance the needs of different parties involved. As fair use interaction is changing from pro-original author to a more pro-secondary author regime due to the easiness of publication and dissemination their work as the result of technological changes. This has significant impact on the copyright system in which works are still thought to be author-centric. The interpretation of *Cariou* and *Green Day* might seem to expand the usage of fair use but on the other hand, it is really questioning whether the current standard of finding fair use under the transformative use has been applied correctly or whether the transformative use has been too heavily relied upon. Like this paper shows, the current fair use is still full of uncertainties but as law will always find way to adapt to the evolving technologies, this paper tries to pave the way for the emergence of a post-modernist copyright and to solve the issues character merchandising might face ex-post *Cariou*.

126 Landsman, *supra* note 93, at 378.

127 *Id*, at 379.