



BUSINESS LAW & ETHICS CORNER

That's not fair! Clarifying copyright and trademark fair use for business managers



Eve J. Brown^a, Paul F. Nagy^{b,*}

^a Director, Intellectual Property & Entrepreneurship Clinic, Suffolk University Law School, 120 Tremont Street, Boston, MA 02108, U.S.A.

^b Sawyer Business School, Suffolk University, 8 Ashburton Place, Boston, MA 02108, U.S.A.

KEYWORDS

Intellectual property;
Fair use;
Copyrights;
Trademarks;
Infringement

Abstract Many managers seek to use existing information in the branding, marketing, and general operations of their business. When that information belongs to another entity, managers risk legal liability unless they obtain the proper permissions or use the information in a way that does not infringe intellectual property rights. Currently, substantial confusion exists regarding when such permissions are required and how to avoid infringing others' rights. This installment of Business Law & Ethics Corner provides managers with basic information about the proper use of copyrighted and trademarked material, including an overview of the doctrine of fair use as applied in the copyright and trademark contexts.

© 2014 Kelley School of Business, Indiana University. Published by Elsevier Inc. All rights reserved.

1. The importance of understanding fair use

In recent years the nexus between business and law as it pertains to intellectual property (IP) has garnered considerable attention from both academic and practitioner communities. This interest is due largely to the transition to a knowledge-based economy; one that places particular importance on a firm's ability to effectively manage IP assets to achieve superior performance in the marketplace. Despite the impact that IP can contribute to the bottom line, many firms have limited understanding

of the laws and regulations associated with these resources. Without proper understanding of the rules associated with IP assets, firms run the risk of not realizing the full strategic value of these intangible resources, and may find themselves in a legally vulnerable position by unwittingly infringing others' IP rights. One particularly problematic area is the concept of fair use. This oft-misunderstood doctrine allows the use of otherwise restricted copyrighted and trademarked material. However, the doctrine is both limited and nuanced. A clear understanding of the scope of fair use, and the distinctions between copyright and trademark fair use, will allow firms to make informed choices about the types of information and materials available for general use, and can reduce the risk of legal liability under federal law.

Take, for example, the recent case of Dumb Starbucks. In February 2014, a coffeehouse

* Corresponding author

E-mail addresses: ebrown1@suffolk.edu (E.J. Brown), pfnagy@suffolk.edu (P.F. Nagy)

resembling a Starbucks Coffee Company store opened in Los Angeles, California. The storefront, interior, and product offerings mimicked the look and feel of a typical Starbucks store with the sole distinguishing feature stemming from the use of the preface “Dumb” (e.g., Dumb Starbucks, Dumb Caramel Macchiato, Dumb Norah Jones Duet CD) (Fritz & Jargon, 2014). In a document, Dumb Starbucks stated that it was not affiliated with Starbucks, but used the company’s “name and logo for marketing purposes” (KPCC Staff, 2014). To address the impression that Dumb Starbucks was infringing Starbucks’ trademarks, the former argued that “by adding the word ‘dumb’, we are technically ‘making fun’ of Starbucks, which allows us to use their trademark under a law known as ‘fair use’” (2014). Further, Dumb Starbucks suggested that, despite being a fully functioning coffeehouse, it should be considered a work of parody for legal purposes and that “the only way to use [Starbucks’] intellectual property under fair use is if we are making fun of them” (2014). Debates over this claim of fair use followed shortly and swiftly. The numerous arguments supporting and opposing Dumb Starbucks’ claim suggest a general uncertainty about the scope of the fair use doctrine.

This installment of Business Law & Ethics Corner demystifies the fair use of copyrights and trademarks under United States law by identifying the most common myths associated with the use of protected works and trademarks. It provides an overview of fair use from the copyright and trademark perspectives, explains the use of parody as a defense, and discusses the business implications of the doctrine.

2. The intricacies of copyright and trademark fair use

Before discussing the legal elements of fair use, it is important to debunk some commonly held misunderstandings about its scope and application. This section presents five of the most common myths surrounding the appropriate use of copyrighted and trademarked materials.

2.1. Five common fair use myths

- *Myth 1: Giving the author or owner credit negates liability for infringement.* Simply identifying the author or owner of protected information does not exonerate a user from liability for use without permission. In general, explicit permission or licenses are required to use another’s intellectual property. In fact, giving attribution to the author provides little or no defense against an infringement claim (Stim, 2007). While citing the author

may protect a user from plagiarism charges, intellectual property law has different rules. In the IP context, merely acknowledging an author will not prevent them from suing for the unauthorized use of their intellectual property (Green, 2002).

- *Myth 2: Use of small portions or samplings of material is automatically permitted.* Another misconception is that the fair use doctrine automatically protects the use of only a small percentage of a larger work. While the amount and substantiality of the portion used compared to the whole work is a factor in the fair use analysis under copyright law, it is only one of four factors that must be considered (see Section 2.2.). It is wise to limit the use of protected information to only the amount necessary, but it is also essential to understand that the use may not be considered fair even if only a trivial portion is used. Several scholars have articulated guidelines on the amount of protected material that can be used without risking liability (Fishman, 2011). For example, some suggest never quoting more than a few successive paragraphs from a source or taking more than one graphic such as a chart, diagram, or illustration.
- *Myth 3: Infringement only occurs when the material is used for commercial profit or gain.* Similar to the amount of material used, the nature of the use—including whether such use is commercial—is another factor that must be considered when performing a fair use analysis under copyright law. While non-commercial use is more likely to be permitted, it should not be mistaken for an absolute shelter against infringement claims (Abrams, 2013). The fact that a use is non-commercial is a much stronger defense under trademark law (Lanham Act, 2006a), which is why it is critical to understand the differences between copyright and trademark and know which rules govern in a particular circumstance. The differences between copyright and trademark fair use are detailed in Sections 2.2. and 2.3.
- *Myth 4: Material without a copyright notice is in the public domain.* Copyrighted material is protected as soon as it is created in a tangible medium. Although some may elect to register their creations with the U.S. Copyright Office, this is not a prerequisite to acquiring rights. Similarly, use of the © symbol or similar language indicating a claim of copyright ownership (e.g., “copyright 2014 by Jane Doe and John Smith”) is not mandatory. Symbols and copyright notices serve as useful warnings to others that someone

claims ownership of the copyright in the work, but copyright owners still retain their rights even without the use of such symbols and notices. The same holds true in trademark law, whereby the ® and ™ symbols serve to notify potential users that marks are either registered with the United States Patent and Trademark Office (USPTO) or are claimed as common law trademarks. But a lack of these symbols does not necessarily indicate that the marks may be replicated without permission.

- *Myth 5: Material on the Internet is free for general use.* This myth is one of the most pervasive among those not well versed in the law (Stim, 2007). This may be due to the freely accessible nature of the Internet and the ease of copying material from the Web. Many believe that images, text, and other works may be copied and used without restriction if they are discovered from an Internet search result. It is not uncommon for managers to incorporate photographs, trademarks, and other protected content into marketing materials, presentations, and business communications based on an erroneous belief that such use is permitted because the materials were readily accessible on the Internet. While multiple websites do exist for the purpose of compiling and offering public domain or creative commons works to the public, a substantial portion of the material on the Internet is protected by copyright or trademark law, whether such protection is obvious or not. For this reason, it is critical to be able to distinguish between material on the Internet that is free to use and material that can trigger legal liability if used without permission.

In addition to these five myths, a common mistake lies in conflating copyright fair use with trademark fair use. Copyright and trademark law differ in their objects, purposes, and applications. Copyright law protects original works of authorship and is designed to ensure that writers, musicians, and artists have an incentive to contribute their creations to society. Trademark law, on the other hand, protects words, slogans, phrases, and other marks associated with commercial goods and services. The economic goals of trademark law are to prevent consumer confusion regarding the source of goods and services, and to preserve the integrity of brands (McCarthy, 1996). Because copyright and trademark law offer different types of protection, the standards governing their use also differ. Erroneously applying the elements of copyright fair use to a trademark matter, or vice versa,

can result in a misguided—and risky—approach for business. Next we provide an overview of copyright fair use and trademark fair use, and discuss distinctions between the two doctrines (see Table 1).

2.2. Copyright fair use



Article 1, Section 8 of the U.S. Constitution gives Congress the power “to secure to literary authors their copyrights for a limited time.” Copyright protects original works of authorship that are fixed in a tangible form, including literature (e.g., novels, poetry), dramatic works (e.g., plays, screenplays, movies), music, art, computer software, and architecture. Copyright owners enjoy the exclusive rights to reproduce/copy the work, to prepare derivative works, to distribute or sell copies to the public, and to display and/or perform the work publicly.

However, the exclusive rights of copyright owners must be balanced with the First Amendment’s guarantee of free speech and expression. This balance is achieved primarily through the fair use doctrine codified in Section 107 of the Copyright Act (1992), which permits certain uses of copyrighted works for purposes such as criticism, comment, parody, news reporting, teaching, scholarship, or research. In determining whether a particular use falls under the fair use doctrine, four factors are considered:

1. the purpose and character of the use, including whether such use is of a commercial nature;
2. the nature of the copyrighted work;
3. the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
4. the effect of the use upon the potential market for or value of the copyrighted work.

No single factor is dispositive; all four must be considered (*Harper & Row Publishers Inc. v. Nation Enterprises*, 1985). In general, copyright fair use is most likely to occur when the secondary use is non-commercial; limited in scope; transformative in nature (i.e., used in a different way than first presented and altered/added on to); does not threaten the market for the original work or act as a substitute for that work; and is employed in the context of legitimate comment, criticism, parody, news reporting, teaching, or scholarship (18 Am. Jur. 2d § 80). A work that is truly transformative

Table 1. Comparison of copyright and trademark fair use

	Elements	Purpose	Examples
Copyright Fair Use	<p>May use copyrighted work for purposes of criticism, comment, news reporting, teaching, scholarship, or research—as long as the following four factors balance in favor of the use being fair:</p> <ol style="list-style-type: none"> 1. the purpose and character of the use, including whether such use is of a commercial nature; 2. the nature of the copyrighted work; 3. the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and 4. the effect of the use upon the potential market for or value of the copyrighted work. 	To balance the exclusive rights of copyright holders with the public's First Amendment rights of free speech and expression	<p>- Google Books' publication of snippets of copyrighted books in its online database</p> <p>- Parody:</p>  <p>- The use of the above image in the context of this article, for the purpose of illustration, education, and comment</p>
Trademark Fair Use	<p>May use a trademark, not as a mark but for the purpose of describing one's goods or services to the public, as long as such use is fair and in good faith. Can only be used when:</p> <ol style="list-style-type: none"> 1. use of the trademark does not imply affiliation with or sponsorship of the trademark owner's product or service; and 2. is unlikely to confuse consumers as to the source of the goods. 	To balance the exclusive rights of trademark owners with the ability of commercial sellers to accurately, fairly, and in good faith describe a feature or characteristic of his product/service to the public, or to provide criticism or comment	<p>- Parody:</p>  <p>- Statement in a commercial or advertisement that "BRAND A tastes better than BRAND B"</p>

uses copyrightable material merely “as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings” (*Fitzgerald v. CBS Broadcasting Inc.*, 2007). Such uses can usually be undertaken without permission from the copyright owner and will not be considered by courts to infringe an existing copyright (*Burnett v. Twentieth Century Fox Film Corp.*, 2007).

2.3. Trademark fair use

While copyright law protects creative works of authorship, trademark law protects commercial products and services. Governed by both state laws and the federal Lanham Act, trademarks represent words, symbols, or phrases used to identify a particular seller’s products and distinguish them from those of others (*Lanham Act*, 2006b). The rights associated with trademarks can also extend to colors, tastes, and scents (*Lemper*, 2012). Trademark protection serves the dual purpose of preventing consumer confusion over the source of a product or service sold in commerce while concurrently protecting the goodwill of the seller (74 Am. Jur. 2d § 1). By ensuring that consumers can accurately identify the source of the products they purchase, trademark law can preserve the integrity of the market.

There are circumstances in which someone other than the trademark owner may use a trademark without running afoul of the law. Trademark fair use balances the exclusive rights of a trademark owner with the rights of the public to comment on or criticize products or services. It also requires the use of marks in ways that do not falsely imply an affiliation with the trademark owner or confuse consumers regarding source of the goods or services. Trademark fair use is separated into two categories: descriptive fair use and nominative fair use.

Embodied in 15 U.S.C.A. § 115(b)(4), descriptive fair use allows the non-trademark exercise of words or symbols to describe a feature or characteristic of the user’s product or service, even though others may employ those words or symbols as trademarks (e.g., using the word apple to describe apple pies sold in grocery stores, even though the term Apple is used by a company as a trademark to identify its brand of computers). Such descriptive use must be accurate, fair, and undertaken in good faith, and must not suggest a false association with the trademark owner or depreciate the value of the goodwill in the mark (*KP Permanent Make-Up Inc. v. Lasting Impression I Inc.*, 2004). Examples of descriptive fair use include using a term to indicate the type, comparative quality, purpose, value, geographic origin, or other characteristics of the user’s goods or services (but not the source), even though

others use the same term as a trademark to identify their brand of goods or services.

Nominative fair use permits the use of another’s trademark as a trademark to refer truthfully and accurately to the goods or services associated with the mark, where the mark is the most informative identifier of the product to be referenced (*Cairns v. Franklin Mint Co.*, 2002). Nominative fair use is generally permissible as long as:

- the product or service in question is not readily identifiable without using the trademark;
- only so much of the mark is used as is reasonably necessary to identify the product or service (e.g., using the word without also using the trademark owner’s stylized font, company logo); and
- use of the mark does not suggest sponsorship or endorsement by the trademark owner.

Common examples of nominative fair use include comparative advertising, parody, and noncommercial use of trademarks in scholarship and commentary (e.g., “Smith computers are less expensive than Apple computers,” where Smith uses Apple as a trademark to accurately identify computers made by Apple, not by Smith).

Importantly, in order to fairly use another’s trademark, the trademark must not be employed for the purpose of capitalizing upon the market and goodwill of the trademark owner or misleading consumers into buying products or services they would not otherwise purchase. Because one of the primary purposes of trademark law is to protect the integrity of the market and of registered brands, uses contradicting these purposes will not be protected under the fair use doctrine. Thus, in the Dumb Starbucks example, Dumb Starbucks’ admission that they were using Starbucks’ name and logo for marketing purposes hurt—rather than bolstered—any self-propelled fair use arguments.

2.4. The ‘parody’ defense

One of the most misunderstood applications of the fair use doctrine is the parody exception. As illustrated by the Dumb Starbucks example, many people overstate the scope of this defense. When invoking parody, it is not enough to simply create something humorous. A true parody transfers a serious work into a comic one for the purpose of making a critical commentary on the substance or style of the original. In cases in which a protected work is used merely to get attention or to avoid the effort involved in creating an original work or

product, “the claim to fairness in borrowing from another’s work diminishes accordingly” (*Campbell v. Acuff-Rose Music Inc.*, 1994). Parody is protected because of the societal benefit it can arguably provide “by shedding light on an earlier work, and, in the process, creating a new one” (1994). Thus, Dumb Starbucks’ admission that it did not actually believe Starbucks was dumb—“We love Starbucks and look up to them as role models”—and that the mockery came out of “necessity, not enmity” severely undercut the claim that the copy-cat coffee shop was defensible as a parody (KPCC Staff, 2014). By admitting that there was no legitimate criticism or commentary behind their mockery, Dumb Starbucks effectively argued against their own interests.

In the copyright context, the critical elements in determining whether unauthorized use of a copyrighted work will be permitted as a parody are whether something new and transformative is created by the parody, and whether the parody is used to create a critical commentary on the original. In general, a proper parody uses the original work because doing so is an essential aspect of making its critical point. For instance, in *Campbell v. Acuff-Rose Music Inc.*, members of the rap group 2 Live Crew composed a rap called “Pretty Woman,” based on Roy Orbison’s “Oh Pretty Woman.” The U.S. Supreme Court concluded that the new song, which was set to the tune of Orbison’s original and copied both the first line and opening bass riff of the original, was “clearly intended to ridicule the white-bread original” and was designed to “derisively demonstrate how bland and banal the Orbison song seems” (*Campbell v. Acuff-Rose Music Inc.*, 1994).

This message was critical in the Court’s analysis of *Campbell v. Acuff-Rose Music Inc.* Because 2 Live Crew did not just usurp Orbison’s tune to avoid coming up with their own catchy riff or to capitalize on Orbison’s existing market, their song was considered a parody that was protected as a fair use. Another important factor in the Supreme Court’s decision was that parodies such as 2 Live Crew’s song rarely substitute for or harm the market for the original, because parodies typically serve a different market than the original works.

While sharing similar goals as copyright parody, trademark parody requires different showings. To prove that a particular trademark use constitutes a non-infringing parody, a user must show that there is no likelihood consumers will believe the parody originated from the trademark owner or will be interpreted as identifying the maker of the goods or services associated with the protected mark (*Louis Vuitton Malletier S.A. v. Haute Diggity Dog LLC*, 2007). In other words, the user must make it

very clear that the parody is not the original and is not associated with the original, but is instead a humorous and/or critical spoof of the original. The legal elements of trademark parody are:

- a famous original work that is known to the target audience;
- a showing that the unauthorized user took only the amount of the original work necessary to bring to mind the original in the eyes of the target audience; and
- a resulting new, original work rather than a simple copy or republication of the original.

In order to prove that consumer confusion is not likely to occur, a user claiming parody should be sure to mock the original to such an exaggerated degree as to clearly distinguish the parody as a joke rather than as a serious reference to the original.

The main takeaway regarding copyright and trademark parodies is that they are not as easy to create as one might think. The use of IP in humorous or otherwise joking manners does not necessarily mean that the use meets the threshold of non-infringing parody.

3. Business implications

While the prior sections serve to educate business leaders regarding fair use of protected materials, we next outline important takeaways for managers. Table 2 provides a list of the recommended do’s and don’ts. First, managers should familiarize themselves with the common myths about copyright and trademark fair use outlined in Section 2.1. Acknowledging the owners of borrowed materials does not protect against infringement; similarly, using only a small amount or percentage of a protected work does not necessarily avoid legal liability. Lack of formal registration with the U.S. Copyright Office or USPTO does not automatically mean materials are free to use. Likewise, the omission of symbols (e.g., ©, ™, or ®) does not constitute use in the public domain. While the context in which protected materials are used is an important consideration in application of the fair use doctrine, non-commercial use does not in and of itself necessarily constitute fair use. Lastly, the Internet is not public domain. While much public domain material can be accessed through the Internet, it is dangerous to assume that all material found on the Internet is in the public domain. These myths continue to persist despite their inaccuracy and potentially detrimental

Table 2. Do's and don'ts of fair use

DO

- Remember that fair use is a **defense**, meaning that by the time the argument arises, you are already in court. With that in mind, try to avoid the issue altogether when possible by using materials that are in the public domain.
- Avoid using protected material in a way that competes commercially with or provides a market substitute for the protected work, good, or service.
- Consult an intellectual property attorney before determining whether your proposed use is fair or not.

DON'T

- Assume that just because you give the author or owner credit, your use is fair.
- Assume that as long as you only take a portion, your use is automatically protected.
- Misinterpret a lack of the ©, ™, or ® symbols as an indication that the information is in the public domain and can be freely used.
- Assume that as long as you are not using the information for commercial profit or gain, you are not violating IP rights.
- Mistake materials posted on the Internet for public domain information just because it is available online.
- Conflate copyright fair use with trademark fair use.
- Despair—Plenty of information may be used if you use it in the proper way.

consequences. Unfortunately, it is not uncommon to find harmful business advice that embraces these very myths. That is why it is imperative for managers to be aware of what constitutes fair use.

Managers must also remember that fair use is an affirmative defense. In other words, the argument that a particular use should be permitted as fair only arises in response to an accusation of infringement. Moreover, because fair use by its very nature begins with the unauthorized use of protected information, a court will most likely presume infringement of the plaintiff's intellectual property rights. It is the accused infringer's burden to prove that the unauthorized use is fair. With this in mind, the safest choice is always to use materials that are in the public domain rather than rely on a fair use defense.

If the use of protected material is unavoidable, a manager should obtain permission from the owner of the intellectual property. Adhering to the adage that it is easier to beg for forgiveness than to ask for permission can be extremely risky and potentially costly. In some circumstances, permission can be obtained at little or no cost, depending on the nature and context of the use. In other situations, managers can obtain contracts or licenses outlining special permissions for the use of protected material in

return for a specified fee. If permission is unlikely or unobtainable, it is best to move on and focus on alternative strategic efforts.

Managers should also avoid using protected material that could potentially cause confusion in the marketplace. Using materials as a market substitute to compete with the original is in direct conflict with the objective of IP rights. This is a common pitfall of many entrepreneurial start-ups and other small and medium-sized enterprises. Young and smaller firms will often create and register materials that closely resemble those owned by large incumbent firms. This is typically done in an effort to gain market legitimacy by mimicking the characteristics of successful companies (Aldrich & Fiol, 1994). Although imitation is considered the greatest form of flattery, it can leave one vulnerable to litigation threats and retaliatory competitive attacks in a business context.

When formulating strategic actions that leverage the use of protected material, we strongly recommend and highly encourage that managers engage counsel or attorneys specializing in IP law. While managers should certainly educate themselves regarding IP basics, there is a strong rationale for relying on the expertise and specialized knowledge of legal professionals (Bagley, 2008). In particular, these specialists can navigate the often confusing

intricacies of copyright and trademark usage. In addition to benefitting from risk and fair use assessments, firms that include lawyers in their strategic planning tend to fare better than those that silo legal considerations from other general business concerns.

References

- 18 Am. Jur. 2d § 80. *Copyright and literary property*.
 74 Am. Jur. 2d § 1. *Trademarks and tradenames*.
- Abrams, H. B. (2013). *The law of copyright*. Eagan, MN: Thomson West.
- Aldrich, H., & Fiol, C. (1994). Fools rush in? The institutional context of industry creation. *Academy of Management Review*, 19(4), 645–670.
- Bagley, C. (2008). Winning legally: The value of legal astuteness. *Academy of Management Review*, 33(2), 378–390.
- Burnett v. Twentieth Century Fox Film Corp. (2007). 491 F. Supp. 2d 962 (C.D. Cal.)
- Cairns v. Franklin Mint Co. (2002). 292 F.3d 1139, 1151 (9th Cir.)
- Campbell v. Acuff-Rose Music Inc. (1994). 510 U.S. 569. Available at <http://www.plainsite.org/dockets/dubid3kw/supreme-court-of-the-united-states/campbell-v-acuffrose-music-inc/>
- Copyright Act. (1992). 17 U.S.C.A. § 107
- Fishman, S. (2011). *The copyright handbook: What every writer needs to know*. Berkeley, CA: NOLO.
- Fitzgerald v. CBS Broadcasting Inc. (2007). 491 F. Supp. 2d 177 (D. Mass.). Available at <http://www.plainsite.org/dockets/2j5k5nvi/massachusetts-district-court/fitzgerald-v-cbs-corporation/>
- Fritz, B., & Jargon, J. (2014, February 10). 'Dumb Starbucks' creates a stir in L.A. Retrieved from <http://online.wsj.com/news/articles/SB10001424052702304104504579373103605668262>
- Green, S. P. (2002). Plagiarism, norms, and the limits of theft law: Some observations on the use of criminal sanctions in enforcing intellectual property rights. *Hastings Law Journal*, 54(1), 167–242.
- Harper & Row Publishers Inc. v. Nation Enterprises. (1985). 471 U.S. 539.
- KP Permanent Make-Up Inc. v. Lasting Impression I Inc. (2004). 543 U.S. 111
- KPCC Staff. (2014, February 9). 'Dumb Starbucks' mystery: Who's behind the faux coffee front in Los Feliz? Retrieved March 20, 2014, from <http://www.scp.org/news/2014/02/09/42085/dumb-starbucks-coffee-shop-opens-in-los-feliz/>
- Lanham Act. (2006a). 15 U.S.C. § 1125(c)(3)
- Lanham Act. (2006b). 15 U.S.C. § 1127
- Lemper, T. (2012). Five trademark law strategies for managing brands. *Business Horizons*, 55(2), 113–117.
- Louis Vuitton Malletier S.A. v. Haute Diggity Dog LLC. (2007). 507 F.3d 252 (4th Cir.)
- McCarthy, J. T. (1996). *McCarthy on trademarks and unfair competition* (4th ed.). New York: Clark Boardman Callaghan.
- Stim, R. (2007). *Getting permission: How to license and clear copyrighted materials online and off*. Berkeley, CA: NOLO.