

THE COLUMBIA JOURNAL OF
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A QUARTERLY JOURNAL OF LAW AND THE ARTS,
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Art, Music, & Mashups:

A View from the Bench on Creativity and Copyright

The Honorable M. Margaret McKeown

Plunder and Provenance:

Using Restitution to Correct a Market Defect

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Fair Use in the Rag Trade:

In Defense of the Fashion Industry's Casual Appropriation of Artwork

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Satan Shoes or Satan Speech? Balancing Trademark and
First Amendment Rights in the Altered Authentic Goods Context

Ann L. Seminara

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CONTENTS

ARTICLES

Art, Music, & Mashups: A View from the Bench on Creativity and Copyright
The Honorable M. Margaret McKeown 109

Plunder and Provenance: Using Restitution to Correct a Market Defect
Steffanie E. Keim 129

Fair Use in the Rag Trade: In Defense of the Fashion Industry's
Casual Appropriation of Artwork
Chantalle R. Forgues 187

NOTE

Satan Shoes or Satan Speech? Balancing Trademark and
First Amendment Rights in the Altered Authentic Goods Context
Ann L. Seminara 221

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**Art, Music, & Mashups:
A View from the Bench on Creativity and Copyright**

The Honorable M. Margaret McKeown*

TABLE OF CONTENTS

Introduction.....	110
I. Copyright Law: A Framework	111
II. Creativity: From Spark to Art in the Modern Context	112
A. <i>Rentmeester v. Nike</i>	113
B. <i>Andy Warhol Foundation for Visual Arts v. Goldsmith</i>	114
C. The Future Face of Copyright Law	118
III. Music & Creativity	120
A. <i>Williams v. Gaye</i>	120
B. <i>Skidmore v. Led Zeppelin</i>	121
C. <i>This Land is Your Land</i>	123
IV. Mashups & Creativity	124
A. Mashups in Literature: <i>Dr. Seuss Enterprises v. ComicMix</i>	124
B. Mashups in Music: Sampling	126
V. Conclusion	127

* Judge McKeown has served since 1998 as a judge of the United States Court of Appeals for the Ninth Circuit. This Article was first delivered as the 34th Annual Horace S. Manges Lecture, given at Columbia Law School on April 4, 2022.

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INTRODUCTION

Creativity has captured human fascination for centuries. It has been said that “[t]here is little that shapes the human experience as profoundly and pervasively as creativity.”¹ But what is creativity? Is it pure originality? Divine inspiration? Clever assimilation of existing ideas? Despite creativity’s central role in human progress, the term eludes finite definition.²

To Plato, creative inspiration was divine.³ In contrast, Kant thought that creative geniuses were not divinely inspired but born with a particular quickness of mind that fostered brilliance and innovation.⁴ T.S. Eliot recognized the critical role of borrowing in creative work, quipping, “[i]mmature poets imitate; mature poets steal; bad poets deface what they take; and good poets make it into something better, or at least something different.”⁵

In psychology, a leading theory of creativity *requires* inspiration from existing concepts. In his “associative theory” of creativity, Sarnoff Mednick posits that most of us have predictable, stereotypical associations with a given stimulus, while the creative among us are able to retrieve remote associations.⁶ For instance, although most associate “table” with “chair,” the creative might proffer “leg” or “food.”⁷ Defining creativity as a framework of novel associations between existing concepts, Mednick distinguishes originality from creativity, finding the former of little import.⁸

However different theorists and disciplines might define creativity, its outcomes are varied, enduring, and ever evolving. Creativity has brought us everything from Rodin’s

1. Scott Barry Kaufman, *The Philosophy of Creativity*, SCI. AM.: BEAUTIFUL MINDS (May 12, 2014), <https://blogs.scientificamerican.com/beautiful-minds/the-philosophy-of-creativity> [<https://perma.cc/WN2Y-YWUM>] [<http://web.archive.org/web/20220119133158/https://blogs.scientificamerican.com/beautiful-minds/the-philosophy-of-creativity>].

2. See Igor Zwir et al., *Evolution of Genetic Networks for Human Creativity*, 27 MOLECULAR PSYCHIATRY 354, 354–58 (2021) (identifying that the genes distinguishing modern humans from Neanderthals and chimpanzees are those responsible for self-awareness and creativity); Kaufman, *supra* note 1 (“Creativity drives progress in every human endeavor, from the arts to the sciences, business, and technology.”).

3. 1 PLATO, *Ion*, in THE DIALOGUES OF PLATO 238, 233–46 (Benjamin Jowett trans., Oxford Clarendon Press 1871) (380 B.C.E.) (describing how “God takes away the minds of poets” such that artists are drawn “out of their senses” whilst creating, governed by neither rules nor conscious effort).

4. IMMANUEL KANT, CRITIQUE OF JUDGMENT 191 (J.H. Bernard trans., 2d ed. 1914) (1790) (“[A]rtistic skill cannot be communicated; it is imparted to every artist immediately by the hand of nature; and so it dies with him, until nature endows another in the same way, so that he only needs an example in order to put in operation in a similar fashion the talent of which he is conscious.”).

5. T.S. ELIOT, *Philip Massinger*, in THE SACRED WOOD: ESSAYS ON POETRY AND CRITICISM 114, 114–36 (Methuen & Co. 1920).

6. See Sarnoff Mednick, *The Associative Basis of the Creative Process*, 69 PSYCH. REV. 220, 222–23 (1962).

7. Mathias Benedek and Aljoscha C. Neubauer, *Revisiting Mednick’s Model on Creativity-Related Differences in Associative Hierarchies. Evidence for a Common Path to Uncommon Thought*, 47 J. CREATIVE BEHAV. 273, 274–75 (2013).

8. Mednick, *supra* note 6, at 221 (“Creative thinking as defined here is distinguished from original thinking by the imposition of requirements on originality. Thus, 7,363,474 is quite an original answer to the problem ‘How much is 12 + 12?’ However, it is only when conditions are such that this answer is useful that we can also call it creative.”).

sculptures and Van Gogh's paintings to Newton's scientific discoveries, from musical scores and movies to computer code.

Where, then, does the law intersect with creativity? The United States Constitution directs Congress to "promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."⁹ Born from that critical clause is the American approach to copyright. Recognized by the U.S. Supreme Court as "the engine of free expression,"¹⁰ copyright law enriches "the general public through access to creative works."¹¹

To illustrate how copyright law fulfills its aims through the lens of art, music, and "mashups," I invite you to accompany me on a short tour of copyright law's dance with creativity by offering select examples from federal appellate decisions and a view from the bench.

I. COPYRIGHT LAW: A FRAMEWORK

Justice Oliver Wendell Holmes counseled that "[i]t would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth" of fine art.¹² Yet, in many cases judges are forced into precisely that role. To begin our tour of how courts carry out copyright law's purpose, I offer a brief guide of how judges assess copyright infringement claims.

First, to come within the ambit of copyright protection, a work must qualify as *original*. The originality threshold is a "famously low bar,"¹³ and only minimal creativity is required.¹⁴ If a work has met the originality threshold, we consider whether infringement has occurred.¹⁵ To establish infringement, the party seeking relief must prove two elements: (1) possession of a valid copyright, and (2) copying of the original elements of the work.¹⁶ We assess whether such copying has occurred by asking whether the secondary work is "substantially similar" to the protected elements of the original work.¹⁷ As Judge Learned Hand put it nearly a century ago, "We have to decide how much [similarity is substantial], and while we are as aware as anyone that the line, wherever it is drawn, will seem arbitrary, that is no excuse for not drawing it; it is a question such as courts must answer in nearly all cases."¹⁸ In other words, a fuzzy line is better than no line at all.

9. U.S. CONST. art. I, § 8, cl. 8.

10. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 558 (1985).

11. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994).

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

13. *Skidmore v. Led Zeppelin*, 952 F.3d 1051, 1069 (9th Cir. 2020) (quoting *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 (1991)).

14. *Feist*, 499 U.S. at 345.

15. *See Skidmore*, 952 F.3d at 1069.

16. *Feist*, 499 U.S. at 361.

17. *Rentmeester v. Nike, Inc.*, 883 F.3d 1111, 1117 (9th Cir. 2018) (quoting *Mattel, Inc. v. MGA Ent., Inc.*, 616 F.3d 904, 913–14 (9th Cir. 2010)), *overruled on other grounds by Skidmore*, 952 F.3d at 1069.

18. *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 122 (2d Cir. 1930).

Even if infringement is established, copiers can escape liability by showing that their derivative work was “fair use” of the original.¹⁹ The Supreme Court has described the fair use doctrine as “an ‘equitable rule of reason’ that ‘permits courts to avoid rigid application of the copyright statute when, on occasion, it would stifle the very creativity which that law is designed to foster.’”²⁰ That is an elegant turn of phrase, but its application does not always translate gracefully. To understand whether a derivative work made “fair use” of the original, courts look to a non-exhaustive list of statutory factors, including the “purpose and character” of the use, the “nature” of the copyrighted work, the “amount and substantiality” of the copied portion as it compares to the original, and the “effect of the use [on] the potential market for or value of the copyrighted work.”²¹ Commentators have criticized the Copyright Act’s fair use factors as “billowing white goo”²² and “naught but a fairy tale.”²³ Even so, the factors are the law and central to an increasing number of copyright disputes.

II. CREATIVITY: FROM SPARK TO ART IN THE MODERN CONTEXT

The intersection of new technologies and creative authorship has complicated copyright over the years, as courts have considered copyright challenges from cable television to file sharing to metadata and more.²⁴ Photographs, in particular, have proven to be a rich vein for litigation.²⁵ This is due in part to the fact that where creativity ends and mechanistic reproduction begins is unique to each photograph. In an 1884 case involving Oscar Wilde, the Supreme Court first considered whether copyright law protects photography.²⁶ The question before the Court was whether a photograph was simply a reproduction “on paper, of the exact features of some natural object” or instead a creative work amenable to copyright protection.²⁷ The Court determined that despite the use of a camera, the photograph of Wilde was copyrightable as an “original work of art, the product of . . . intellectual invention.”²⁸ In years since, new technologies have continually forced courts to revisit the bounds of copyright law. This Section discusses several recent cases that illustrate challenging new intersections of creativity and copyright law.

19. *Google LLC v. Oracle Am., Inc.*, 141 S. Ct. 1183, 1196 (2021) (citing 17 U.S.C. § 107).

20. *Id.* (quoting *Stewart v. Abend*, 495 U.S. 207, 236 (1990)).

21. 17 U.S.C. § 107; *see also Google*, 141 S. Ct. at 1196–97.

22. *Monge v. Maya Mags., Inc.*, 688 F.3d 1164, 1171 (9th Cir. 2012) (quoting Jessica Litman, *Billowing White Goo*, 31 COLUM. J.L. & ARTS 587, 596 (2008)).

23. David Nimmer, “*Fairest of Them All*” & *Other Fairy Tales of Fair Use*, 66 LAW & CONTEMP. PROBS. 263, 287 (2003).

24. *See, e.g., Nat’l Cable Television Assoc., Inc. v. Copyright Royalty Trib.*, 724 F.2d 176, 179 (D.C. Cir. 1983); *Stevens v. CoreLogic, Inc.*, 899 F.3d 666, 671 (9th Cir. 2018).

25. Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions Updated, 1978–2019*, 10 N.Y.U. J. INTEL. PROP. & ENT. L. 1, 7–11 (2020).

26. *See Burrow-Giles Lithographic Co. v. Sarony*, 111 U.S. 53 (1884).

27. *See id.* at 56.

28. *Id.* at 60; *see also id.* at 58 (“We entertain no doubt that the constitution is broad enough to cover an act authorizing copyright of photographs, so far as they are representatives of original intellectual conceptions of the author.”).

A. *RENTMEESTER V. NIKE*

Although the Supreme Court has ruled conclusively that photographs can be creative, applying modern copyright law to photographs remains a complex undertaking for courts and litigants. Consider the images below. On the left is a photograph of a young Michael Jordan in college at the University of North Carolina. The photograph was taken by renowned photographer Jacobus Rentmeester for a photo essay of athletes participating in the upcoming Summer Olympic Games.²⁹ The middle photograph of Jordan was taken by a Nike photographer many years later. That photograph was converted into the well-known Nike “Jumpman” logo pictured on the right. The logo has been used in connection with the sale of billions of dollars of Nike merchandise.³⁰ In 2018, the Ninth Circuit considered whether Nike’s photograph and logo infringed on Rentmeester’s original shot.³¹



No one debated that Rentmeester’s photograph was an original work.³² Because only a work’s original elements are protected under copyright law, the court’s first task was to sort through the protected and unprotected elements of Rentmeester’s photograph.³³ The court found that there were many highly original elements to Rentmeester’s photographs, including: Jordan’s unusual pose (inspired more by “ballet’s *grand jeté* than by any pose a basketball player might naturally adopt when dunking a basketball”), the photograph’s setting on a grassy knoll on the University of North Carolina’s campus instead of a basketball court, and the basketball hoop’s whimsical placement in the frame.³⁴ However, the court determined that these elements were akin to ideas or facts, and therefore not copyrightable.³⁵ Where the photograph displayed original expression meriting protection was in the “selection and arrangement of the photo’s otherwise unprotected elements.”³⁶

Having found Rentmeester’s photograph protectable, the court then turned to the central issue of whether the works were substantially similar. The conclusion: they were not.³⁷ Just as Rentmeester “made a series of creative choices in the selection and

29. Rentmeester v. Nike, Inc., 883 F.3d 1111, 1115 (9th Cir. 2018).

30. *Id.* at 1116.

31. *Id.* at 1115.

32. *Id.* at 1118.

33. *Id.* at 1118.

34. *Id.* at 1121.

35. *Id.* at 1123.

36. *Id.* at 1119.

37. *Id.* at 1121.

arrangement of the elements in his photograph, so too Nike's photographer made his own distinct choices in that regard.³⁸ In the court's view, "[t]hose choices produced an image that differed from Rentmeester's photo in more than just minor details."³⁹ Because, for example, Jordan's balletic pose itself was not copyrightable, Nike's photograph would only infringe if the other details also copied Rentmeester's photo.⁴⁰ The court observed, "[T]he *arrangement* of the elements within the photographs is materially different. . . . In Rentmeester's photo, Jordan is positioned slightly left of center and appears as a relatively small figure within the frame."⁴¹ In contrast, in the Nike photo, Jordan "is perfectly centered and dominates the frame."⁴² The lighting, angles, borders, and other details are also different.⁴³ These key distinctions led the court to conclude that there was no substantial similarity between the two photographs, and thus Nike's photograph did not infringe Rentmeester's photograph as a matter of law.⁴⁴

But what of the Jumpman logo? The court reasoned that "[i]f the Nike photo cannot as a matter of law be found substantially similar to Rentmeester's photo, then the same conclusion follows ineluctably with respect to the Jumpman logo."⁴⁵ The Jumpman logo is simply a silhouette of Jordan from the Nike photo.⁴⁶ Yet, one wonders what role Jordan's celebrity played in the court's decision. To be sure, the Jumpman logo is both an anonymous silhouette and a clear homage to Jordan.

B. *ANDY WARHOL FOUNDATION FOR VISUAL ARTS V. GOLDSMITH*

The celebrity role often looms large in copyright cases. In the 2022 term, the Supreme Court will decide a high-profile copyright case involving two more American icons: Prince and Andy Warhol.⁴⁷ The case concerns a feud between Lynn Goldsmith, who took the photograph of pop singer Prince (left), and Warhol, who produced a collection of silkscreen prints and illustrations of Prince based on Goldsmith's photograph (right).

38. *Id.*

39. *Id.*

40. *Id.*

41. *Id.* at 1122 (emphasis added).

42. *Id.*

43. *Id.*

44. *Id.* at 1123.

45. *Id.*

46. Notably, one panel member wrote a separate concurrence because, while he agreed the Jumpman logo did not infringe, he thought the Nike photo's distinctiveness was "not an uncontested breakaway layup." *Id.* at 1129 (Owens, J., concurring). Therefore, he believed disposing of the claim at the motion-to-dismiss stage was premature. *Id.* at 1127 (Owens, J., concurring).

47. *Andy Warhol Found. for Visual Arts, Inc. v. Goldsmith*, 11 F.4th 26 (2d Cir. 2021) ("*Warhol*"), cert. granted, 142 S. Ct. 1412 (2022). Judge McKeown delivered the 34th Annual Horace S. Manges Lecture on April 4, 2022, six months before the Supreme Court heard oral argument in *Warhol v. Goldsmith* on October 12, 2022. At the time this Article went to press, the Supreme Court had not yet issued its opinion.



In *Andy Warhol Foundation for Visual Arts, Inc. v. Goldsmith* (“Warhol”), the Second Circuit considered whether Warhol impermissibly infringed on Goldsmith’s copyrighted photograph.⁴⁸ Although the district court ruled for Warhol,⁴⁹ on appeal, the Second Circuit undertook the substantial similarity analysis and held in favor of Goldsmith.⁵⁰ The court was persuaded by the fact that Warhol had used the original photograph as the “raw material” for his creations.⁵¹ Because Warhol had not simply copied the “idea” of Goldsmith’s photo, but instead Goldsmith’s “particular expression” of that idea, Warhol’s work was substantially similar to that of Goldsmith’s and thus infringed on her copyright.⁵²

Remembering Justice Holmes’s caution, the Second Circuit warily stepped into the role of art critic.⁵³ The court viewed “the overarching purpose and function of the two works” as identical, “not merely in the broad sense that they are created as works of visual art, but also in the narrow but essential sense that they are portraits of the same person.”⁵⁴ Also, the court warned against creating a “celebrity plagiarist privilege” by applying different rules to well-known artists like Warhol.⁵⁵ Notably, the Second Circuit contrasted Warhol’s silk screens with Nike’s photograph in *Rentmeester v. Nike*.⁵⁶ Nike had created its own photograph inspired by the Rentmeester photograph with key artistic details changed.⁵⁷ By contrast, Warhol used the photograph as the very foundation of his work, tipping the scales in favor of the copyright owner.⁵⁸ The court cautioned, “This is not to say that every use of an exact reproduction constitutes a work that is substantially similar to the original. But here, given the degree to which Goldsmith’s photograph remains recognizable within Warhol’s, there can be no reasonable debate that the works are substantially similar.”⁵⁹

48. *Id.* at 32.

49. *Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith*, 382 F. Supp. 3d 312 (S.D.N.Y. 2019).

50. *Warhol*, 11 F.4th at 54.

51. *Id.* at 53–54.

52. *Id.* at 54.

53. See *Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 251 (1903). See also the Article text that accompanies note 12.

54. *Warhol*, 11 F.4th at 42.

55. *Id.* at 43.

56. *Id.* at 54.

57. *Id.*

58. *Id.*

59. *Id.*

Having established substantial similarity, the court asked whether Warhol could nevertheless escape liability by establishing that his use of the photograph fell under the fair use exception.⁶⁰ The court cautioned that “fair use presents a holistic, context-sensitive inquiry ‘not to be simplified with bright-line rules . . . All four statutory factors are to be explored, and the results weighed together, in light of the purposes of copyright.’”⁶¹ When examining the first factor, the court established that “assessment of this first factor has focused chiefly on the degree to which the use is ‘transformative.’”⁶² In other words, to what extent does the work in question contribute something meaningfully new not found in the original?

The district court had concluded that the works in Warhol’s *Prince Series* are transformative because they “can reasonably be perceived to have transformed Prince from a vulnerable, uncomfortable person to an iconic, larger-than-life figure.”⁶³ But the Second Circuit disagreed, reasoning that the *Prince Series* failed to convey “a new meaning or message” separate from the Goldsmith photograph.⁶⁴ With that in mind, and because the Goldsmith photograph visibly served as the “raw material” for the *Prince Series*, the Second Circuit concluded that Warhol’s work was not transformative.⁶⁵

So too, the remaining fair use factors weighed in favor of Goldsmith. The nature of Goldsmith’s work was creative, rather than factual, so the second factor weighed in her favor.⁶⁶ The third factor—the amount and substantiality of the use—weighed in Goldsmith’s favor because “while Goldsmith has no monopoly on Prince’s face, the law grants her a broad monopoly on its image as it appears in her photograph.”⁶⁷ Finally, the fourth factor—the effect of the *Prince Series* on the market for Goldsmith’s photo—weighed in her favor because she lost out on potential licensing royalties from the Warhol Foundation and other market opportunities due to the presence of the *Prince Series* in the market.⁶⁸ The net result of this calculus: Warhol’s *Prince Series* did not make fair use of Goldsmith’s photograph.⁶⁹ Thus, concluding that the *Prince Series* was non-transformative and commercial in nature (though demonstrating artistic value that serves the public interest), the appeals court held that the “purpose and character” of the *Prince Series* weighed in the photographer’s favor.⁷⁰

When the Supreme Court takes up this issue, the justices will evaluate whether the Second Circuit’s decision advances the goals of copyright. As Judge Dennis Jacobs on the Second Circuit noted in his concurrence, “[r]isk of a copyright suit or uncertainty about an artwork’s status can inhibit the creative expression that is a goal of copyright”

60. *Id.* at 37.

61. *Id.* (quoting *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577–78 (1994)) (cleaned up).

62. *Id.* at 37 (citing *Campbell*, 510 U.S. at 579).

63. *Id.* at 41.

64. *Id.*

65. *Id.* at 53–54.

66. *Id.* at 53.

67. *Id.* at 46.

68. *Id.* at 51.

69. *Id.*

70. *Id.* at 44–45.

just as copyright protection can incentivize new original works.⁷¹ In this vein, the Court will also confront how the Second Circuit's restrictive reading of transformative use implicates these competing objectives. Amicus briefs emphasize a variety of arguments: the importance of copying in art, the chilling of creation, that the prohibition on considering a work's meaning violates the Supreme Court's teachings in *Campbell v. Acuff-Rose Music*, and that ignoring a work's message risks a First Amendment violation.⁷² Finally, it is notable that the two historically active justices in the field of copyright—Justice Ginsburg and Justice Breyer—will no longer be on the Court. This case may signal whether a newer justice will take up the Supreme Court's copyright mantle.

Discussion of *Warhol* would be incomplete without turning to what some call the copyright case of the century—*Google v. Oracle* (2021).⁷³ The Supreme Court issued this decision just ten days after the Second Circuit's opinion in *Warhol*.⁷⁴ Writing for a 6-2 majority, Justice Breyer concluded that Google's use of certain elements of Oracle's Java code was transformative and fair use as a matter of law.⁷⁵ Google was seeking to "create new products" and used Java code to make the new products more accessible to users.⁷⁶ The Court's analysis moved directly to fair use, thus sidestepping the question of whether the code was copyrightable in the first place—in other words, whether the code was original.⁷⁷ This approach is not uncommon, and we see it in lower court decisions as well.⁷⁸ Because of the Supreme Court's discussion of fair use, the Second Circuit was asked to revisit *Warhol*. However, the circuit court did not stray from its original disposition.⁷⁹ The court concluded that *Warhol* is fully consistent with *Google* because the *Google* decision did not reshape the field of fair use in copyright—a field that is "highly contextual and fact specific."⁸⁰

71. *Id.* at 55 (Jacobs, J., concurring).

72. As of September 5, 2022, twenty amicus briefs had been filed in the case. *Supreme Court Docket, No. 21-869*, U.S. SUP. CT. (Sept. 5, 2022, 4:21 PM), <https://www.supremecourt.gov/search.aspx?filename=/docket/docketfiles/html/public/21-869.html> [<https://perma.cc/6HMH-9B5Y>] [<https://web.archive.org/web/20221011002851/https://www.supremecourt.gov/search.aspx?filename=/docket/docketfiles/html/public/21-869.html>].

73. *Google LLC v. Oracle Am., Inc.*, 141 S. Ct. 1183 (2021).

74. *Id.*; *Warhol*, 11 F.4th at 26.

75. *Google*, 141 S. Ct. at 1209.

76. *Id.* at 1203.

77. *Id.*

78. *See, e.g.*, *Perfect 10, Inc. v. Yandex N.V.*, 962 F. Supp. 2d 1146, 1154 (N.D. Cal. 2013); *Calkins v. Playboy Enters. Int'l, Inc.*, 561 F. Supp. 2d 1136, 1140 (E.D. Cal. 2008); *321 Studios v. MGM Studios, Inc.*, 307 F. Supp. 2d 1085, 1090 (N.D. Cal. 2004).

79. *Andy Warhol Found. for Visual Arts, Inc. v. Goldsmith*, 11 F.4th 26, 32–33 n.1 (2d Cir. 2021), *cert. granted*, 142 S. Ct. 1412 (2022).

80. *Id.* at 51.

C. THE FUTURE FACE OF COPYRIGHT LAW

This brings us to our important question: who will be the future face of copyright law? Can non-humans assert copyright protection too?



The above photograph is a selfie of Naruto, a monkey living on a reserve in Indonesia. In 2011, wildlife photographer David Slater left his camera unattended in the reserve.⁸¹ Naruto came across the unattended camera and took several photographs of himself with Slater's camera.⁸² Slater published a book called the *Monkey Selfies* that included this image.⁸³ Slater saw himself as the creative mind behind the photograph and thus the rightful copyright owner.⁸⁴ The United States Copyright Office saw it differently, deciding that the monkey was the creator but that a non-human creator cannot hold a copyright.⁸⁵

People for the Ethical Treatment of Animals (PETA) later sued Slater on Naruto's behalf, arguing that Naruto owned the copyright and that Slater, along with the other defendants, were infringers.⁸⁶ Jurisdictional questions plagued the proceedings: do monkeys have standing to assert copyright protection? On appeal, the Ninth Circuit held that the answer is no, and dismissed the case without having the opportunity to the other novel legal questions that the case presented.⁸⁷

81. *Naruto v. Slater*, 888 F.3d 418, 420 (9th Cir. 2018).

82. *Id.*

83. DAVID J. SLATER, *WILDLIFE PERSONALITIES* (2014).

84. Brief for Appellant-Defendant at 12, *Naruto v. Slater*, 888 F.3d 418 (9th Cir. 2018) (No. 16-15469), 2016 WL 4585006, at *4 (“[Plaintiff] insults all professional photographers with the suggestion that seeing your reflection in a lens and pressing a shutter button—by itself—entitles one to a copyright for the photograph, even when someone else made the critical artistic decisions that resulted in a photographic work adored by millions worldwide.”).

85. U.S. Copyright Office, *Compendium of U.S. Copyright Office Practices* § 313.2 (3d ed. 2014); see also Maria A. Pallante, *From Monkey Selfies to Open Source: The Essential Interplay of Creative Culture, Technology, Copyright Office Practice, and the Law*, 12 WASH. J.L. TECH. & ARTS 123, 123–29 (2017).

86. See generally *Naruto*, 888 F.3d 418.

87. *Id.* at 425.



The questions underlying non-human copyright are not limited to animals. Developments in artificial intelligence (AI) have also challenged the boundaries of copyright law. The above artwork, titled *A Recent Entrance to Paradise*, is one such example of AI's artistic potential.⁸⁸ The author of the computer code disclaimed any human involvement in the artwork's creation, explaining that it was "autonomously created by a computer algorithm running on a machine."⁸⁹ He sought to challenge the Copyright Review Board's "human authorship requirement [as] unconstitutional and unsupported by case law."⁹⁰ However, the Copyright Review Board refused to budge: it denied registration for *A Recent Entrance to Paradise*, emphasizing that "the nexus between the human mind and creative expression" is a vital element of copyright.⁹¹ Thus, early signs suggest that AI-generated works will not be subject to copyright because, like our friend Naruto, they lack the necessary human element.⁹² Yet, as AI becomes a more significant part of our lives, including the lives of artists, the Board's decision here may not be the end of the story.⁹³

The same question confronting the Supreme Court in 1884 circles back to us today: Can technological developments produce artistic masterpieces, or mere mechanical

88. See Copyright Review Board, Re: Second Request for Reconsideration for Refusal to Register a Recent Entrance to Paradise (Correspondence ID 1-3ZPC6C3; SR # 1-7100387071), at 1 (Feb. 14, 2022).

89. *Id.* at 2.

90. *Id.* at 3.

91. *Id.* at 4, 7.

92. *Id.* at 3 ("After reviewing the statutory text, judicial precedent, and longstanding Copyright Office practice, the Board again concludes that human authorship is a prerequisite to copyright protection in the United States and that the Work therefore cannot be registered.")

93. See, e.g., Tim Dornis, *Artificial Creativity: Emergent Works and the Void in Current Copyright Doctrine*, 22 YALE J.L. & TECH. 1, 59 (2020); Joanna Gill, *As AI-Generated Art Booms: Who Really Owns It?*, REUTERS (Sept. 7, 2022), <https://news.trust.org/item/20220907094856-onbmp> [<https://perma.cc/ZF5W-ALXX>] [<https://web.archive.org/web/20221014024913/https://www.context.news/ai/as-ai-generated-art-booms-who-really-owns-it/>].

reproductions?⁹⁴ Will works created by animals and computer codes be embraced or land in the copyright dust pile? We must wait to see if Congress steps in to extend the copyright universe or if the Supreme Court takes up this issue in a future term.

III. MUSIC & CREATIVITY

Let us now turn from visual art to music, a space where copyright principles have an immense impact. As with visual art, courts' analysis of whether a musical work infringes is both highly technical and instinctual. The doctrine requires judges to parse distinct elements of a musical composition and to decide whether certain musical elements may be considered non-protectable as a matter of law or are best determined by a jury.

The way that courts come down on these questions has significant implications both for the development of new musical works and for the fair compensation of musicians. Copyright has long had major impact on musicians' compensation. Famously, after the introduction of copyright protection in Italy, Giuseppe Verdi was able to amass "a considerable fortune"—so much so that he stopped composing entirely.⁹⁵ Likewise, Johannes Sebastian Brahms began earning vast sums from his compositions and retired early.⁹⁶ Because economic stakes are high, the steady stream of high-profile copyright disputes is no surprise, from Chuck Berry to the Beach Boys to Katy Perry.⁹⁷ Contemporary cases continue to confront whether and which new artists can take inspiration—and even pieces of prior recordings—from the existing greats.

A. WILLIAMS V. GAYE

Music copyright has a long and winding history, but today, two things are clear: both physical musical scores and sound recordings are copyrightable.⁹⁸ What remains an open question is whether copyright law extends beyond musical scores and sound recordings to include the more abstract concept of musical style.

Just four years ago, the Ninth Circuit fostered uncertainty about the answer to that question in one of the most influential and controversial copyright cases of our time: *Williams v. Gaye*.⁹⁹ The case involved two highly popular musical works: Marvin Gaye's

94. See *supra* Part I.

95. Peter K. Yu, *How Copyright Law May Affect Pop Music Without Our Knowing It*, 83 UMKC L. REV. 363, 363 n.3 (2014) (quoting WILLIAM F. PATRY, *HOW TO FIX COPYRIGHT* 36 (2011)); see also F.M. Scherer, *The Emergence of Musical Copyright in Europe from 1709 to 1850*, 5 REV. ECON. RES. ON COPYRIGHT ISSUES 3, 11 (2008).

96. *Id.*; see also JAN SWAFFORD, *JOHANNES BRAHMS* 343–45 (2012).

97. See e.g., Jordan Runtagh, *Songs on Trial: 12 Landmark Music Copyright Cases*, ROLLING STONE MAG. (June 8, 2016), <https://www.rollingstone.com/politics/politics-lists/songs-on-trial-12-landmark-music-copyright-cases-166396/the-beach-boys-vs-chuck-berry-1963-65098> [<https://perma.cc/9CND-7WHN>] [<https://web.archive.org/web/20221014025208/https://www.rollingstone.com/politics/politics-lists/songs-on-trial-12-landmark-music-copyright-cases-166396/the-beach-boys-vs-chuck-berry-1963-65098/>]; *Gray v. Perry*, No. 2:15-cv-05642-CAS-JCx, 2020 WL 1275221 (C.D. Cal. Mar. 16, 2020).

98. See, e.g., *Skidmore v. Zeppelin*, 952 F.3d 1051, 1061–1063 (9th Cir. 2020).

99. 895 F.3d 1106 (9th Cir. 2018).

enduring hit, “Got to Give it Up” (1977), and Pharrell Williams’s and Robin Thicke’s modern favorite “Blurred Lines” (2013).¹⁰⁰ The dispute highlights the importance of “who decides”—courts or juries. The “Blurred Lines” case came to the Ninth Circuit after a jury found that Thicke and Williams infringed on Gaye’s song.¹⁰¹ A divided panel of the court affirmed, upholding a jury award of over five million dollars as well as a piece of future royalties from “Blurred Lines.”¹⁰²

However, the case drew a vigorous dissent, which claimed that the majority “allows the Gayes to accomplish what no one has before: copyright a musical style.”¹⁰³ The dissent contended that Blurred Lines’ use of the repeated notes was not copyright infringement but fair use of the building blocks of music.¹⁰⁴ Because such building blocks are unprotectable as a matter of law and thus do not require factual inquiry, the dissent would have resolved the case in a summary judgment posture rather than permitting it to proceed to the jury.¹⁰⁵

The dissent drew comment among both artists and attorneys. Some musicians worried that the opinion’s reasoning would allow copyright law to cover a musical “style” and proscribe publishing music legitimately inspired by prior works.¹⁰⁶ Meanwhile, some legal thinkers expressed concern that courts taking it into their own hands to resolve these extremely challenging, fact-bound questions could threaten an important constitutional and procedural check.¹⁰⁷

B. SKIDMORE V. LED ZEPPELIN

Another high-profile case illustrates the important role that a jury can play in copyright matters. Decades after the release of both songs, Randy Wolfe’s estate claimed that Led Zeppelin’s famous song “Stairway to Heaven” infringed on Wolfe’s song “Taurus.”¹⁰⁸ Trial was a battle of the experts, with each side explaining the basics of music composition, arpeggios, and the like.¹⁰⁹ Weighing these complex factual questions, the jury concluded that the two songs were not substantially similar and

100. *Id.* at 1115.

101. *Id.*

102. *Id.* at 1138.

103. *Id.* (Nguyen, J., dissenting).

104. *Id.* (Nguyen, J., dissenting).

105. *See id.* at 1138–52 (Nguyen, J., dissenting).

106. *See* Ed Christman, ‘Blurred Lines’ Verdict: How It Started, Why It Backfired on Robin Thicke and Why Songwriters Should Be Nervous, BILLBOARD (Mar. 13, 2015), <https://www.billboard.com/articles/business/6502023/blurred-lines-verdict-how-it-started-why-it-backfired-on-robin-thicke-and> [<https://perma.cc/3MA2-AHU4>] [<https://web.archive.org/web/20221014025304/https://www.billboard.com/pro/blurred-lines-verdict-how-it-started-why-it-backfired-on-robin-thicke-and>].

107. *See* Olivia Lattanza, Note, *The Blurred Protection for the Feel or Groove of a Song Under Copyright Law: Examining the Implications of Williams v. Gaye on Creativity in Music*, 35 TOURO L. REV. 723, 726 (2019) (asserting that “the Ninth Circuit’s affirmance of the jury’s decision inappropriately expanded the scope of copyright protection to the feel or groove of a song,” which will “substantially diminish the creative output of artists.”); *see also* John Quagliarello, *Blurring the Lines: The Impact of Williams v. Gaye on Music Composition*, 10 HARV. J. SPORTS & ENT. L. 133, 141–45 (2019).

108. *Skidmore v. Zeppelin*, 952 F.3d 1051, 1056 (9th Cir. 2020).

109. *See id.* at 1058.

found in favor of Led Zeppelin.¹¹⁰ On appeal, the Ninth Circuit en banc upheld the verdict, in an opinion that I authored.¹¹¹

Although Wolfe's copyright was filed under an earlier version of the copyright law, several key principles emerged that remain important. Skidmore—the Wolfe Trustee and the appellant in the case—claimed that the opening five chromatically descending notes of *Stairway to Heaven* are substantially similar to the eight-measure introduction of the *Taurus* score deposited with the copyright office.¹¹² Skidmore's expert musicologist listed another of five categories of “unique and memorable” elements that *Stairway to Heaven* drew from *Taurus*.¹¹³

The case also confronted the enduring question of when building blocks of music—“common or trite” musical elements” or “common place elements” that belong in the public domain—become copyrightable original composition.¹¹⁴ As I explained in the opinion, “[D]escending chromatic scales, arpeggios or short sequence of three notes’ are examples of ‘common musical elements.’”¹¹⁵ The chromatic scale, even a minor descending chromatic scale, is individually unprotectable because it is one of only two principal scales in Western music and is composed of only twelve pitches.¹¹⁶ Likewise, chords and arpeggios are individually unprotectable elements because they are simply three or more pitches sounded simultaneously or successively.¹¹⁷

The Ninth Circuit delved into a “substantial similarity” inquiry as in *Rentmeester*.¹¹⁸ Once again, the devil was in the details. Even though common building blocks may be insufficient to be a “modicum” of “creative spark,” there can be an “original selection and arrangement of unprotected elements” as a basis for the substantial similarity comparison.¹¹⁹ The clincher in *Skidmore* was that Wolfe's estate failed to argue a selection and arrangement theory and failed to object to the district court's decision to omit a jury instruction on such a theory.¹²⁰

One week after the Ninth Circuit issued *Skidmore*, its lessons were put to the test.¹²¹ A rapper known as Flame claimed Katy Perry's hit song *Dark Horse* infringed his *Joyful Noise* song.¹²² The jury sided with Flame, awarding \$2.8 million, but the Central

110. *Skidmore v. Led Zeppelin*, No. CV1503462RGKAGR, 2016 WL 6674985 (C.D. Cal. Aug. 8, 2016), *vacated and remanded sub nom.* *Skidmore as Tr. for Randy Craig Wolfe Tr. v. Led Zeppelin*, 905 F.3d 1116 (9th Cir. 2018), *aff'd en banc sub nom.* *Skidmore as Tr. for Randy Craig Wolfe Tr. v. Led Zeppelin*, 952 F.3d 1051, 1056 (9th Cir. 2020).

111. *Skidmore*, 952 F.3d at 1055–56.

112. *Id.* at 1057–58.

113. *Id.* at 1059.

114. *Id.* at 1069 (first quoting *Smith v. Jackson*, 84 F.3d 1213, 1216 n.3 (9th Cir. 1996), then quoting *Williams v. Gaye*, 895 F.3d 1106, 1140–41 (9th Cir. 2018) (Nguyen, J., dissenting)).

115. *Id.* at 1070.

116. *Id.*

117. *Id.*

118. *See generally id.*

119. *Id.* at 1071 (quoting *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 341, 362 (1991)), 1074 (quoting *Apple Comput., Inc. v. Microsoft Corp.*, 35 F.3d 1435, 1446 (9th Cir. 1994)).

120. *Id.* at 1076.

121. *See Gray v. Perry*, No. 2:15-cv-05642-CAS-JCx, 2020 WL 1275221 (C.D. Cal. Mar. 16, 2020), *aff'd*, 28 F.4th 87, 103 (9th Cir. 2022).

122. *Id.* at *1.

District of California ultimately vacated the verdict and damages award.¹²³ The case illustrates the monetary and musical stakes of this issue, as well as the continually complex dynamic between trial judges and juries.

C. *THIS LAND IS YOUR LAND*

Woody Guthrie's ballad *This Land is Your Land* is a catchy American folk classic, but it is also a sharp political commentary. On the heels of the Great Depression, Guthrie felt that Irving Berlin's *God Bless America* "inadequately addressed land and wealth inequality," so he wrote an anthem that presented a truer portrait of America.¹²⁴

Little did Guthrie know that his own protest ballad would become the basis for one of the most popular riffs in modern politics—one that its creators claimed was a parody.¹²⁵ In 2007, the digital entertainment studio JibJab created the "parody" video in the run up to the Bush-Kerry election, and it has since garnered more than five million views on YouTube.¹²⁶ According to its creators, the video has been viewed on every continent, including Antarctica, and even on the International Space Station.¹²⁷ There was only one problem: JibJab never licensed Guthrie's music.¹²⁸

A messy dispute over exactly who did own Guthrie's song ensued.¹²⁹ Ludlow Music, Inc., a music publishing company, claimed it had owned the song since filing for copyright in 1956.¹³⁰ Unbeknownst to Ludlow, however, Guthrie had published the song in 1945, which triggered its copyright protection. Under the then-applicable laws, the copyright protection extended for twenty-eight years, with an option for one

123. *Id.* at *1, *18.

124. Niraj Chokshi, *Who Owns the Copyright To 'This Land Is Your Land? It May Be You and Me*, N.Y. TIMES (June 17, 2016), <https://www.nytimes.com/2016/06/18/business/media/this-guthrie-song-is-your-song-a-lawsuit-claims.html> [<https://perma.cc/2PGJ-2FL3>] [<https://web.archive.org/web/20221021012441/https://www.nytimes.com/2016/06/18/business/media/this-guthrie-song-is-your-song-a-lawsuit-claims.html>].

125. See Complaint, *JibJab Media, Inc. v. Ludlow Music, Inc.*, No. C-04-3097-(PVT) (N.D. Cal. July 29, 2004). As a parody of a parody, the JibJab video raises another safety valve in copyright. What is a parody? A parody "imitates the characteristic style of an author or a work for comic effect." *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 580 (1994) (collecting dictionary definitions). Courts have long held that works that borrow from original works to parody them can be transformative and qualify as fair use. See *id.* at 578–80. For example, the author of *The Wind Done Gone* defended her work as a parody of *Gone with the Wind*. *Wind Done Gone' Suit is Settled*, WASH. POST (May 10, 2002), <https://www.washingtonpost.com/archive/lifestyle/2002/05/10/wind-done-gone-suit-is-settled/2c3cdd51-dc94-4b15-8f1c-c5926302997d> [<https://perma.cc/SH4Q-27MN>] [<https://web.archive.org/web/20221103211640/https://www.washingtonpost.com/archive/lifestyle/2002/05/10/wind-done-gone-suit-is-settled/2c3cdd51-dc94-4b15-8f1c-c5926302997d>].

126. See JibJab, *This Land!*, YOUTUBE (Nov. 16, 2007), <https://www.youtube.com/watch?v=z8Q-sRdV7SY> [<https://perma.cc/PXF6-LQFX>] [<https://web.archive.org/web/20221021221355/https://www.youtube.com/watch?v=z8Q-sRdV7SY>].

127. Jody C. Baumgartner, *American Youth and the Effects of Online Political Humor*, in LAUGHING MATTERS: HUMOR AND AMERICAN POLITICS IN THE MEDIA AGE 131, 133 (Jody C. Baumgartner & Jonathan S. Morris eds., 2008).

128. See generally Complaint, *JibJab Media, Inc. v. Ludlow Music, Inc.*, No. C-04-3097-(PVT) (N.D. Cal. July 29, 2004).

129. Chokshi, *supra* note 124.

130. *Id.*

twenty-year renewal. Guthrie, who passed away in 1967, did not seek the renewal. JibJab claimed that the song entered the public domain after the copyright elapsed in 1973, whereas Ludlow asserted that their 1956 copyright still stood. Because the parties ultimately settled,¹³¹ we still do not know just who owns *The Land is Your Land*—Ludlow or “you and me.”¹³²

IV. MASHUPS & CREATIVITY

Let us turn to another contemporary challenge—mashups. It has become increasingly common for artists, across media, to draw from a medley of preexisting works in shaping their own. Imitation may be the highest form of flattery, but it is also often a violation of copyright law. How do courts deal with these works that involve both clear copying and obvious creativity? When, if ever, is a mashup a form of fair use?

A. MASHUPS IN LITERATURE: *DR. SEUSS ENTERPRISES V. COMICMIX*

Consider another Ninth Circuit decision that I authored, *Dr. Seuss Enterprises v. ComicMix*.¹³³ This 2020 case pitted one of the authors of *Star Trek* against none other than Dr. Seuss. The last book that Dr. Seuss published before he passed, *Oh, the Places You'll Go! (Go!)*, continues to top the *New York Times* Best Seller list during graduation season every year.¹³⁴ The Trekkies, enamored by Seuss's beloved children's book, wrote their own version: *Oh, the Places You'll Boldly Go! (Boldly)*. This book borrows, boldly, from *Go!* and other works by Dr. Seuss to share the message that “life is an adventure but it will be tough.”¹³⁵ However, the Trekkies never sought a license from Dr. Seuss Enterprises,¹³⁶ and they never contended in court that *Boldly* did not infringe on Dr. Seuss's work.¹³⁷ Apparently, the Trekkies thought they would be “pretty well protected” by the fair use defense, but acknowledged “people in black robes” may disagree.¹³⁸ As it so happened, we did.¹³⁹

As in *Warhol*, the fair-use question was examined through the lens of the four statutory fair use factors. First, we looked at the purpose and characteristics of the work.¹⁴⁰ The panel concluded that *Boldly* was not a parody¹⁴¹ because it did not comment on Seuss's original work but “simply retold” the tale “to get attention or maybe

131. *JibJab Media v. Ludlow Music (“This Land” Parody)*, ELEC. FRONTIER FOUND., <https://www EFF.ORG/cases/jibjab-media-inc-v-ludlow-music-inc> [<https://perma.cc/WA47-8TTD>] [<https://web.archive.org/web/202210210222001/https://www EFF.ORG/cases/jibjab-media-inc-v-ludlow-music-inc>].

132. Chokshi, *supra* note 124.

133. *Dr. Seuss Enters, L.P. v. ComicMix LLC*, 983 F.3d 443 (9th Cir. 2020).

134. *Id.* at 449.

135. *Id.* at 448.

136. *Id.* at 450.

137. *See generally id.*

138. *Id.* at 148.

139. *Id.* at 463.

140. *See id.* at 452.

141. *Id.*

even to avoid the drudgery in working up something fresh.”¹⁴² *Boldly* likewise was not transformative.¹⁴³ Critical to our analysis was the Trekkies’ repackaging of *Go!* illustrations.¹⁴⁴



The illustrations of the machines are virtually identical in color, shape, and down to the detail of the squiggly shadow mark in front.¹⁴⁵ The Star Trek character’s movement in and out of the machine mirrors the movement of the Seussians as well.¹⁴⁶ The copying is obvious. The transformation is not.



In this second image, one can see how the Trekkies copied the exact composition of the famous ‘waiting place’ in *Go!*, down to the placement of the couch and the fishing spot.¹⁴⁷ Merely replacing the Seussian figures with Star Trek characters is hardly a radical transformation. With this in mind, we resolved that, “[a]lthough [the Trekkies’] work need not boldly go where no one has gone before, its repackaging, copying, and lack of critique of Seuss, coupled with its commercial use of *Go!*, do not result in a transformative use,” so the first factor weighed “definitively against fair use.”¹⁴⁸

142. *Id.* at 452–53 (quoting *Dr. Seuss Enters., L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1400 (9th Cir. 1997)).

143. *Id.* at 451.

144. *Id.* at 454–55.

145. *See id.* at 457–58.

146. *See id.* at 455.

147. *Id.* at 454–55.

148. *Id.* at 455.

The remaining statutory factors also weighed against fair use here. In particular, the amount and substantiality of the use were significant.¹⁴⁹ The Trekkies copied “close to 60%” of *Go!*” and “for each of the highly imaginative illustrations” the Trekkies borrowed, they “replicated, as much and as closely as possible from *Go!*, the exact composition, the particular arrangements of visual components, and the swatches of well-known illustrations.”¹⁵⁰ Just adding something on top does not make a claimed mashup protectible.¹⁵¹ Finally, the fourth factor—the potential market for or value of *Go!*—weighed against fair use.¹⁵² The Trekkies “intentionally targeted and aimed to capitalize on the same graduation market as *Go!*.”¹⁵³ Additionally, if allowed to proliferate, “[w]orks like *Boldly* would curtail *Go!*’s potential market for derivative works, and the direct market for *Go!*.”¹⁵⁴

The end result: the Trekkies’ expression collided with the intellectual property rights of Seuss Enterprises, and the Trekkies could not escape liability with a fair use defense.

B. MASHUPS IN MUSIC: SAMPLING

Despite some critics’ concerns, the panel in *Dr. Seuss Enterprises* never suggested that mashups are broadly unprotectible.¹⁵⁵ As judges, we must take basic copyright principles intended to apply to everything, from music scores to mashups, and look at the works in context. A good example of how copyright protection has been extended to include mashups is sampling—the art of cutting a sound bite from an existing song to create a new composition. Sampling forms the bedrock of modern hip hop and rap.¹⁵⁶ As one industry insider put it, “Old recordings are to the hip-hop producer what paint is to the painter—raw material to be manipulated into art.”¹⁵⁷

Given the variety of forms that sampling can take—from a thirty-second excerpt to a quarter-second horn beat of another’s copyright-protected recording—courts need to consider how far sampling protections should extend. The answers have created a rift in the circuits, ripe for Supreme Court consideration. According to the Sixth Circuit, the rule is simple: “Get a license or do not sample.”¹⁵⁸ The Ninth Circuit expressly rejected the Sixth Circuit’s approach about a decade later, holding that “the ‘de minimis’ exception applies to infringement actions concerning copyrighted sound recordings, just as it applies to all other copyright infringement actions.”¹⁵⁹

149. *Id.* at 456.

150. *Id.* at 456–58.

151. *Id.* at 453.

152. *Id.* at 458–59.

153. *Id.* at 460.

154. *Id.* at 461.

155. *See generally id.*

156. *See* Tonay M. Evans, *Sampling, Looping, and Mashing . . . Oh My! How Hip Hop Music is Scratching More than the Surface of Copyright Law*, 21 *FORDHAM INTELL. PROP., MEDIA & ENT. J.* 845 (2011).

157. JOSEPH G. SCHLOSS, *MAKING BEATS: THE ART OF SAMPLE-BASED HIP HOP* 23 (2004) (quoting “Mr. Supreme,” a consultant in the industry).

158. *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792, 801 (6th Cir. 2005).

159. *VMG Salsoul, LLC v. Ciccone*, 824 F.3d 871, 874 (9th Cir. 2016).

The split garnered significant attention in legal circles.¹⁶⁰ Critics of the Sixth Circuit decision argued it would stymie new forms of expression by making it nearly impossible to create certain music. For example, intellectual property scholar Tim Wu argues that the costs of the Sixth Circuit's bright-line rule vastly outweigh the benefits because of the pervasiveness of sampling in rap and hip-hop music.¹⁶¹ For its part, the Sixth Circuit contends that its decision would not "stiffl[e] creativity in any significant way."¹⁶² Artists could recreate sounds in their studios and market forces are likely to "control the license price and keep it in bounds."¹⁶³ Given the dispute between the circuits, it may be only a matter of time before the Supreme Court delves into the music sampling arena.

V. CONCLUSION

We come full circle back to the question of creativity and copyright. Congress has set out the basic framework for copyright, but it is the courts' interpretations of resulting questions that put the meat onto the statute's bones. And the answers are often far from clear. Recognizing that copyright is intended to strike a delicate balance between providing protection to incentivize creators and providing avenues for inspiration to promote creativity, the copyright principles and factors cannot be applied in a rote manner; rather, courts need to respond to context and nuance.

Even though judges are not art critics, we need to look critically at the facts of each case. Indeed, facts matter, even in the courts of appeal. We, too, face the challenge of applying an often-outdated statutory construct to new mediums and works. Over the last two centuries of copyright, there has been a fascinating dance between the courts and Congress as to the scope of copyright occasioned by advances in technology. The question here is who will make the next move—Congress or the courts?

160. See, e.g., Lesley Grossberg, *A Circuit Split at Last: De Minimis Exception*, AM. BAR ASSOC. INTELL. PROP. LITIG. PRAC. POINTS (June 21, 2016); Spencer K. Gray, *Circuit Split: An Efficient Rule To Govern the Sampling of Sound Recordings*, 106 KY. L. J. ONLINE (Jan. 26, 2018).

161. Tim Wu, *Jay-Z Versus the Sample Troll: The Shady One-Man Corporation That's Destroying Hip-Hop*, SLATE (Nov. 16, 2006), <https://slate.com/culture/2006/11/the-shady-one-man-corporation-that-s-destroying-hip-hop.html> [<https://perma.cc/5EPD-389F>] [<https://web.archive.org/web/20221021072001/http://www.slate.com/favicon.ico>] ("Early rap, like Public Enemy, combined and mixed thousands of sounds in a single album. That makes sense musically, but it doesn't make sense legally. Thousands or even hundreds of samples, under the *Bridgeport* theory, mean thousands of copyright clearances and licenses. Today, Public Enemy's breakout album, *It Takes a Nation of Millions to Hold Us Back*, would cost millions to produce or, more likely, would never have been made at all.")

162. *Bridgeport*, 410 F.3d at 801.

163. *Id.*

Plunder and Provenance: Using Restitution to Correct a Market Defect

Steffanie E. Keim*

ABSTRACT

The secondary art market is experiencing a market failure caused by Nazi-looted art without legal title. Legal and market responses are inadequate and create illiquidity. The prevailing methodology entrenches existing inefficiencies by not utilizing the potential to rehabilitate Nazi-looted art. Economic research does not address Nazi-looted art, and the legal, ethical, and moral discussions are not considering the economic effect of Nazi-looted art on the market. Existing proposals lack a distributive aspect and are inefficient as they remain anchored in the bilateral structure of current possessor versus original owner and a zero-sum framework. This Article closes the existing gap in the literature and recommends compensated restitution as a market solution to the toxic asset of Nazi-looted art. The Article's central contribution to the restitution debate is the proposed creation of the Holocaust Expropriated Art Restitution Fund (HEAR Fund), which removes Nazi-looted art from the market and increases liquidity through restitution. The HEAR Fund captures and utilizes currently ignored private information, allowing it to contribute to social utility. Uncertainty is eliminated, and the artwork reenters the market with legal title. The Fund has two functions: a database and efficient information infrastructure for provenance research and acquiring works for restitution. It creates an efficient solution to the Nazi-looted art problem by increasing the utility of all art market actors and implements the long-standing executive policy of the United States government on Nazi-looted art bringing justice to the victims of Nazi dispossession. Restitution is structuralized by treating comparable situations equally, adding fairness and justice to the process, and compensation ensures the participation of current possessors.

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TABLE OF CONTENTS

Introduction.....	131
I. Plunder, Provenance & Premium.....	135
A. Plunder—The War on Culture as Part of the Political Program.....	135
B. Provenance.....	138
C. Premium.....	141
II. Defects in the Art Market.....	143
A. Nazi-looted Art and Systemic Information Deficits	143
B. Types of Information Deficits.....	147
1. Asymmetric Information.....	147
2. Temporary Uncertainty.....	149
3. Ambiguity (Permanent Uncertainty)	149
C. The Lemons Market and Nazi-Looted Art.....	150
1. The Auction House	153
a. The Auction House as Intermediary	153
b. The Auction House and Nazi-looted Art.....	156
2. The Museum.....	159
a. Disclosure Mechanisms	159
b. The Museum and Nazi-looted Art	163
III. Transactional Approach to Nazi-looted Art	166
A. The Existing Legal Landscape.....	167
B. The HEAR Fund.....	172
C. Scope of the HEAR Fund.....	175
1. Initial Fund Set Up.....	175
a. Nazi-looted Art held by Auction Houses and Museums	175
b. Nazi-looted Art Returned to Consignor or Donor.....	176
i. Temporary Uncertainty.....	177
ii. Ambiguity (Permanent Uncertainty)	177
2. Expanding the Reach of the Fund	178
D. Hear Fund Procedures	179
E. Funding the HEAR Fund.....	182
1. Fees	183
2. Taxes.....	183
3. Other Income.....	184
IV. Conclusion.....	186

A restituted painting “serves as evidence of continuity and symbolic communication”¹ with those lost and the past.

INTRODUCTION

Nazi-looted art² is a pervasive problem in the art market that neither the law nor the market has adequately addressed.³ Transactions in Nazi-looted art⁴ fail to transfer legal title to the buyer, create inefficiencies, and lead to time-consuming and costly litigation. The law does not fairly and equitably address the singular event of politically- and economically- motivated acts of looting by the National Socialist German Workers (Nazi) Party during the Third Reich⁵ in Germany and occupied territories. Aiming to resolve the conflicting interests of the original owner⁶ and the (possibly good-faith) possessor in the traditional property law framework of chattel theft, without acknowledging the art-specific and historical significance of Nazi looting, creates inconsistency and uncertainty.⁷

This Article shows how market and legal mechanisms do not enforce or support the moral and equitable choices manifested in the Washington Conference Principles on Nazi-confiscated art⁸ and the Holocaust Expropriated Art Recovery Act of 2016 (HEAR

1. WERNER MUENSTERBERGER, *COLLECTING: AN UNRULY PASSION* (2014).

2. The term Nazi-looted art as used herein refers to artwork or other property as defined in Section 4(2) of the Holocaust Expropriated Art Restitution Act of 2016, which the original owners were despoiled of as a result of the organized looting, theft, forced sale, or other form of persecution by the National Socialist Party from January 1, 1933, to December 31, 1945. In this context, the term Nazi-looted art refers to unrestituted Nazi-looted art. While technically still Nazi-looted art, a work can enter the market with clear title following restitution since the return to the original owner allows the subsequent purchaser to obtain title.

3. The exact number of Nazi-looted artworks is unknown, but in 2019 it was estimated that 100,000 of 600,000 stolen paintings are still missing. Stuart E. Eizenstat, *Art Stolen by the Nazis is Still Missing. Here’s How We Can Recover It*, WASHINGTON POST (Jan. 2, 2019, 6:06 PM) https://www.washingtonpost.com/opinions/no-one-should-trade-in-or-possess-art-stolen-by-the-nazis/2019/01/02/01990232-0ed3-11e9-831f-3aa2c2be4cbd_story.html [<https://perma.cc/3XS4-MQK9>] [https://web.archive.org/web/20230104151616/https://www.washingtonpost.com/opinions/no-one-should-trade-in-or-possess-art-stolen-by-the-nazis/2019/01/02/01990232-0ed3-11e9-831f-3aa2c2be4cbd_story.html].

4. While not addressed in this paper, the discussed solution is likely applicable and may later extend to other large-scale looting or art with title issues such as unprovenanced antiquities.

5. The national German territory governed by the Nazi party from 1933 to 1945 was known as the “German Reich” or “Third Reich” and was sometimes referred to as the “Thousand-Year Reich.”

6. In the interest of readability, this Article refers to the “original owner”—this term, however, includes heirs and descendants where applicable.

7. Complex issues and forensic difficulties led Norman Palmer to ask whether civil litigation was appropriate since no one “other than a state, a state-supported party, an oil company, or a private individual of enormous wealth, could seriously contemplate litigation.” Andrew Kenyon & Simon Mackenzie, *Recovering Stolen Art—Australian, English and US Law on Limitations of Action*, 30 U.W. AUSTL. L. REV. 233, 248 (2001) (citing Norman Palmer, *Recovering Stolen Art*, 47 CURRENT LEGAL PROBS. 215, 218 (1994)).

8. The Washington Conference Principles consist of eleven principles formulated in a non-binding declaration concluding the Washington Conference on Holocaust-Era Assets in November 1998. *Washington Conference Principles*, U.S. DEP’T OF STATE (Dec. 3, 1998) <https://www.state.gov/washington-conference-principles-on-nazi-confiscated-art> [<https://perma.cc/65CA-L3UR>] [<https://web.archive.org/web/20221011172238/https://www.state.gov/washington-conference-principles-on-nazi-confiscated-art>].

Act).⁹ It adds to the existing economic and legal literature by examining Nazi-looted art market models and analyzing the interplay between disclosure mechanisms, intermediation, adverse selection, market efficiency, and liquidity.

Market efforts to address Nazi-looted art led to a market failure by creating an illiquid asset class of Nazi-looted art and Covered Objects.¹⁰ Art market actors respond to provenance issues leading to title defects by conducting provenance research to counter uncertainty and asymmetric information. Provenance¹¹ research is essential in determining whether the current holder of Nazi-looted art or a Covered Object owns the work or is a mere possessor. Establishing an unbroken chain of title transfers is essential for such works. Property entitlements to personal moveable property are typically the right to exclusive possession, the right to exclusive use, and rights of acquisition and conveyance. The property holder is often referred to as the owner, which can be a misnomer. Possession does not signify whether the possessor has a right to hold the item or not. The right of possession legitimizes physical possession, but it can be separated from actual physical possession. The right of property is the right that is superior to and defeats all other claims. Different people may hold these three rights,¹² but legal title unites possession, the right of possession, and the right of property in the same person.

Auction houses and museums create an illiquid asset class by not accepting objects lacking a full provenance for consignment or donation. The current possessor loses utility as he cannot sell the work. This is exacerbated by the fact that even the perception of title risk¹³ can have the same impact as actual title risk. After becoming the subject of litigation between the Warhol Foundation and a former bodyguard of

9. The HEAR Act, advertised as finally ensuring that claims involving artwork lost because of persecution during the Nazi era would be resolved on the merits, standardized the statute of limitations period for claims in U.S. state and federal courts to a universal six-year limitations period until January 1, 2027. Holocaust Expropriated Art Recovery (HEAR) Act of 2016, Pub. L. No. 114-308, § 5, 130 Stat. 1524, 1526–28 (codified as amended at 22 U.S.C. § 1621 (2016)).

10. Incorporating existing standards, this Article uses the American Alliance of Museums' definition of "Covered Objects," encompassing any work of art acquired after 1932 "that underwent a change of ownership between 1932 and 1946, and that [was] or might reasonably be thought to have been in continental Europe between those dates." *Standards and Professional Practices—Unlawful Appropriation of Objects During the Nazi Era*, AM. ALL. OF MUSEUMS, <https://www.aam-us.org/programs/ethics-standards-and-professional-practices/unlawful-appropriation-of-objects-during-the-nazi-era> [https://perma.cc/M7RP-PD9E] [https://web.archive.org/web/20221011174151/https://www.aam-us.org/programs/ethics-standards-and-professional-practices/unlawful-appropriation-of-objects-during-the-nazi-era].

11. The term "provenance" generally refers to the documented chronology of ownership, including dates and methods of transfer, custody, and the locations where the work was kept, exhibited, or sold. Documented provenance can also provide reassurance regarding an artwork's value and "provides a verifiable public certification of authenticity." CLARE MCANDREW, *THE ART ECONOMY: AN INVESTOR'S GUIDE TO THE ART MARKET* 95 (2007).

12. For example, imagine C steals D's heirloom which had been in the family for generations but was stolen centuries earlier (though this fact is now forgotten by all) from E. B then buys it in good faith from C, and A steals it from B. In this hypothetical, A has the possession, B has an apparent right of possession (as evidenced by the purchase), D has the absolute right of possession (being the best claim that can be proven), and the heirs of E, if they knew it, have the right of property, which they cannot prove.

13. See generally, A. J. G. TIJHUIS, *TRANSNATIONAL CRIME AND THE INTERFACE BETWEEN LEGAL AND ILLEGAL ACTORS: THE CASE OF THE ILLICIT ART AND ANTIQUITIES TRADE* (2006).

Elizabeth Taylor,¹⁴ the painting *Liz* (1964) by Andy Warhol, failed to attract a single bid at auction.¹⁵

Furthermore, the current approach does not bring justice to the original owner as it stops short of returning the object and restoring title.

Information requires efficient information conduits and a persuasive infrastructure to permeate a market. Existing market initiatives,¹⁶ while commendable, fall short by keeping information private, resulting in inefficiency and utility loss. Missing incentives for restitution of Nazi-looted art and Covered Objects render them illiquid despite their rehabilitation potential. Capturing such works and restoring title is critical for these artworks to re-enter the legitimate stream of commerce, increasing value and

14. *Andy Warhol Found. for the Visual Arts, Inc. v. Augusto Bugarin and Tagliatella Galleries*, Index No. 160437/2014 (N.Y. Sup. Ct. Oct. 24, 2014). After the court initially blocked the sale of the painting, the parties settled and two Warhol nephews supported Bugarin's claim that the painting was gifted to him. *'Liz Taylor Painting Was a Gift! Warhol's Nephews Oppose Warhol Foundation Allegations*, REVOLVER WARHOL GALLERY, <https://revolverwarholgallery.com/liz-taylor-painting-was-a-gift-warhols-nephews-oppose-warhol-foundation-allegations> [https://perma.cc/7Z7M-CYPJ] [https://web.archive.org/web/20230104153821/https://revolverwarholgallery.com/liz-taylor-painting-was-a-gift-warhols-nephews-oppose-warhol-foundation-allegations].

15. Lawrence M. Shindell, *Provenance and Title Risks in the Art Industry: Mitigating These Risks in Museum Management and Curatorship*, 31 MUSEUM MGMT. AND CURATORSHIP 406, 408 (2016). See also Blake Gopnik, *The Warhol that Failed to Sell*, ARTNET (May 13, 2016), <https://news.artnet.com/market/christies-auction-warhol-basquiat-flunks-art-history-101-495518> [https://perma.cc/AZ5Q-Z65Q] [https://web.archive.org/web/20221011184159/https://news.artnet.com/market/christies-auction-warhol-basquiat-flunks-art-history-101-495518].

16. For example, umbrella organizations such as the Association of Art Museum Directors and the International Council of Museums issued guidelines on ethics, standards, and professional practices regarding acquisitions. See, e.g., *New Acquisitions of Archaeological Material and Works of Ancient Art*, ASS'N OF ART MUSEUM DIRS., <https://aamd.org/object-registry/new-acquisitions-of-archaeological-material-and-works-of-ancient-art/more-info> [https://perma.cc/F52N-PF9L] [https://web.archive.org/web/20230104155526/https://aamd.org/object-registry/new-acquisitions-of-archaeological-material-and-works-of-ancient-art/more-info]; *Resolutions of Claims for Nazi-Era Cultural Assets*, ASS'N OF ART MUSEUM DIRS., <https://aamd.org/object-registry/resolution-of-claims-for-nazi-era-cultural-assets/more-info> [https://perma.cc/P6R7-FEMM] [https://web.archive.org/web/20230104160322/https://aamd.org/object-registry/resolution-of-claims-for-nazi-era-cultural-assets/more-info]; *ICOM Code of Ethics for Museums*, ICOM, <https://icom.museum/wp-content/uploads/2018/07/ICOM-code-En-web.pdf> [https://perma.cc/DNN7-F2YC] [https://web.archive.org/web/20230104160440/https://icom.museum/wp-content/uploads/2018/07/ICOM-code-En-web.pdf]. Individual museums are also conducting research projects regarding their holdings, and the Museum of Fine Arts in Boston established a curator of provenance position in 2010. See, e.g., *Selected Museum Provenance Research Projects in the US and Abroad*, The Met Museum, <https://www.metmuseum.org/about-the-met/provenance-research-resources/museum-provenance-research-projects> [https://perma.cc/NCA5-2HST] [https://web.archive.org/web/20230104160654/https://www.metmuseum.org/about-the-met/provenance-research-resources/museum-provenance-research-projects]. Additionally, some auction houses have adopted Guidelines for Nazi-era Art Restitution Issues. See generally *Christie's Guidelines for Dealing with Nazi-era Art Restitution Issues*, CHRISTIE'S (June 2019), <https://www.christies.com/pdf/services/2010/christies-guidelines-for-dealing-with-restitution-issues.pdf> [https://perma.cc/XYM4-DN8R] [https://web.archive.org/web/20221011230319/https://www.christies.com/pdf/services/2010/christies-guidelines-for-dealing-with-restitution-issues.pdf,%20last]. The Responsible Art Market Initiative (RAM), formed in Geneva in 2015, publishes an Art Transaction Due Diligence Toolkit addressing Nazi-looted art. RAM, *Art Transaction Due Diligence Toolkit*, RESPONSIBLE ART MARKET, <http://responsibleartmarket.org/guidelines/art-transaction-due-diligence-toolkit> [https://perma.cc/G3GR-6SS6] [https://web.archive.org/web/20221011234435/http://responsibleartmarket.org/wp/wp-content/uploads/2018/01/RAM-DUE-DILIGENCE-web.pdf].

the possibility of capturing the premium buyers are willing to pay for restituted artworks.

The central contribution of this Article to the restitution debate is the proposed establishment of a Holocaust Expropriated Art Restitution Fund (“HEAR Fund”) to remove Nazi-looted art and Covered Objects from the art market. The HEAR Fund’s mission is to capture existing information and incentivize restitution by compensating the current possessor. Transcending zero-sum solutions and engaging market actors is the most efficient method of resolving the existing systemic market failure. A central repository for provenance information and the artworks themselves adds fairness and predictability, replacing the existing “restitution roulette.”¹⁷

The proposal builds on the fact that it is not efficient for the original owner, the seller, or the buyer to conduct the necessary provenance research. The HEAR Fund has two components. First, a database and efficient information infrastructure for provenance research for Nazi-looted art. The second component is the acquisition and restitution function, removing Nazi-looted art, i.e., artworks with clouded title or without title, from the art market.

The HEAR Fund incentivizes auction houses and museums to continue their rigorous provenance research practices and allows them to monetize their efforts by selling or licensing their information and knowledge to the HEAR Fund. It incentivizes possessors of Nazi-looted art to come forward by compensating them for the artwork sold to the HEAR Fund. It brings justice to the original owners or heirs who will benefit from institutional knowledge and uniform decision-making by the HEAR Fund as the repository for Nazi-looted art. The HEAR Fund helps the United States government implement its long-standing executive policy regarding the restitution of Nazi-looted art. It is distributive in its cost allocation by dispersing the cost of provenance research and restitution across a broader demographic instead of making the current possessor or the original owner the sole cost-bearer.

Despite the economic challenges high-value Nazi-looted artworks pose, the transactional justice approach is superior to litigation and alternative dispute resolution processes, which exclude many original owners from seeking restitution by being cost-prohibitive. The public and transparent database must fit within the European General Data Protection Regulation (“GDPR”) framework. Existing carve-outs should enable the HEAR Fund database to operate as envisioned. Its reliance on voluntary participation is a limitation of the HEAR Fund, and it will not prevail against an unwilling possessor of Nazi-looted art. However, compensating the possessor is a strong incentive to overcome resistance and encourage participation.

The Introduction outlines the market failure in the secondary art market caused by Nazi-looted art and introduces a new solution to the restitution debate. *Part I* provides the context and background of the plunder by the Nazis and explains the significance of provenance research. *Part II* presents an overview of the scope and scale of the information asymmetry in the market and demonstrates the art market’s information failure by discussing two common scenarios. *Part III* introduces the proposed

17. Thomas R. Kline, *Restitution Roulette: A Comparison of U.S. and European Approaches to Nazi-Era Art Looting Claims*, 16 No. 3 IFARJ. 56, 62 (2015).

transactional solution to the systemic information deficits and situates it in the existing legal and market conditions. It explains the proposed HEAR Fund and its mission to purchase and remove Nazi-looted art from the market. In conclusion, it outlines the scope of the HEAR Fund, its mechanisms for dealing with temporary and permanent uncertainty, and financing mechanisms.

I. PLUNDER, PROVENANCE & PREMIUM

Part IA outlines the National Socialists' political program for the economic destruction of the Jewish population. *Part IB* explains the process and importance of provenance research. *Part IC* illustrates the economic impact of Nazi-looted art in the market by providing an example of the premium paid for a restituted artwork.

A. PLUNDER—THE WAR ON CULTURE AS PART OF THE POLITICAL PROGRAM

Looting is different from theft. Property rights as a legal mechanism to encourage production and protect products by maximizing the costs of theft and minimizing the costs of protecting the property cannot properly address looting. Nazi-looted art¹⁸ is even further distinguishable from other forms of bounty and war spoils. In most conflicts, outside forces perpetuate the injustice, and the “victim State and the offending State”¹⁹ are different entities. The atrocities of the Nazi regime were initiated and committed from within and by a State against its people under the cover of law.²⁰ The despoliation of Jews and other persecuted groups was not incidental—it was central to the regime's scheme of dehumanizing its victims. The loss of identity transcending the material loss associated with theft²¹ is particularly pertinent in light of the connection between the loss of property, loss of rights, and loss of life.²²

The seizure of art served several purposes: to achieve a purely Aryan and Germanic Reich, all so-called degenerate art needed to be removed and destroyed or sold for profit²³ to cleanse German culture from “Jewish trash,” “total madness,” and “barbarous methods of representation.”²⁴ Secondly, Hitler pursued his ambition to create the

18. See generally LYNN H. NICHOLAS, *THE RAPE OF EUROPA: THE FATE OF EUROPE'S TREASURES IN THE THIRD REICH AND THE SECOND WORLD WAR* (1994). For a historical analysis, see also JONATHAN GEORGE PETROPOULOS, *THE FAUSTIAN BARGAIN: THE ART WORLD IN NAZI GERMANY* (2000).

19. Jhiela C. Mirdamadi, *Too Little, Too Late: Dunbar v. Seger-Thomschitz and the Ongoing Challenge Posed by Prescriptive Periods in Holocaust-Era Art and Cultural Property Restitution Matters*, 17 *ART ANTIQUITY* L. 69, 76 (2012).

20. Much of it would later extend to occupied territories. For the problem of the domestic takings rule as addressed by the United States Supreme Court, see *Fed. Republic of Germany v. Philipp*, 141 S. Ct. 703 (2021).

21. DAS GESCHÄFT MIT DER RAUBKUNST: FAKTEN, THESEN, HINTERGRÜNDE 10 (Matthias Frehner ed., 1998); see generally Matthias Frehner, „Das Wird Toll und Immer Toller”—*Der Grösste Kunstraub der Geschichte*, in *id.* at 79–86.

22. See the French prosecutor's summary during the Nuremberg trials in MICHAEL SALTER, U.S. INTELLIGENCE, THE HOLOCAUST AND THE NUREMBERG TRIALS: SEEKING ACCOUNTABILITY FOR GENOCIDE AND CULTURAL PLUNDER 717 (2009).

23. Owen C. Pell, *The Potential for a Mediation/Arbitration Commission To Resolve Disputes Relating To Artworks Stolen or Looted During World War II*, 10 *DEPAUL-LCAJ. ART & ENT. L.* 27, 31–32 (1999).

24. NICHOLAS, *supra* note 18, at 21–22.

Führermuseum in his hometown of Linz, Austria as a lasting tribute to The Thousand-Year Reich²⁵ and himself,²⁶ exemplifying German cultural superiority.²⁷ Thirdly, the looting and dispossession of Jewish property was the economic prong in his plan to eliminate and extinguish the Jewish race through economic ruin.²⁸ Ordinances required all Jews to provide detailed reports of their property and subjected the property to being “secured in accordance with the dictates of the German economy.”²⁹ Art collections were legally seized based on the Ordinance for the Registration of Jewish Property, the Ordinance for the Attachment of the Property of the People’s and State’s Enemies, and the Ordinance for the Employment of Jewish Property.³⁰ Profits and foreign currency obtained by selling “degenerate” and looted art fueled the German economy and financed the war effort and mass murder.³¹ It is estimated that almost ten percent of the total 1938–1939 government budget—approximately 1.5 billion Reichsmark—was stolen from Jews.³² “The objects are symbols of a terrible crime; recovering them is an equally symbolic form of justice.”³³

There is no universal narrative for Nazi-looted art. Sometimes a government cover-up followed wild looting to legitimize it after the fact. The confiscation of degenerate art is a prime example of such post-looting legitimization. Initially based on a Führer decree, the seizures were legitimized by a May 1938 law authorizing confiscation without compensation and passing title to the Reich, enabling it to sell the seized artworks.³⁴ Other times, the looting was the consequence of a law. Each Nazi-looted object has to be viewed and examined individually based on where and when it was looted. The looting trajectory was different in western European countries like France

25. David Gold, *Is There Any Way Home? A History and Analysis of the Legal Issues Surrounding the Repatriation of Artwork Displaced During the Holocaust*, 21 ENT. ARTS & SPORTS L.J. 12, 12 (2010).

26. See Julia Parker, *World War II & Heirless Art: Unleashing the Final Prisoners of War*, 13 CARDOZO J. INT’L COMP. L. 661, 665 (2005).

27. Shira T. Shapiro, *How Republic of Austria v. Altmann and United States v. Portrait of Wally Relay the Past and Forecast the Future of Nazi Looted Art Restitution Litigation*, 34 WM. MITCHELL L. REV. 1147, 1151 (2008).

28. See generally Jonathan George Petropoulos, *Art As Politics: The Nazi Elite’s Quest for the Political and Material Control of Art* (1991) (Ph.D. dissertation, Harvard University) (ProQuest).

29. Jonathan Petropoulos, *German Laws And Directives Bearing On The Appropriation Of Cultural Property In The Third Reich*, in THE SPOILS OF WAR 106, 107 (Elizabeth Simpson ed., 1997).

30. See Kelly Diane Walton, *Leave No Stone Unturned: The Search for Art Stolen by the Nazis and the Legal Rules Governing Restitution of Stolen Art*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 549, 554 (1998) and Stephanie Cuba, *Stop the Clock: The Case To Suspend the Statute of Limitations on Claims for Nazi-Looted Art*, 17 CARDOZO ARTS & ENT. L.J. 447, 471–72.

31. MARTIN DEAN, *ROBBING THE JEWS: THE CONFISCATION OF JEWISH PROPERTY IN THE HOLOCAUST, 1933–1945*, 220–21 (Cambridge Univ. Press 2008).

32. GÖTZ ALY, *HITLER’S BENEFICIARIES: PLUNDER, RACIAL WAR, AND THE NAZI WELFARE STATE* 48 (Jefferson Chase trans., 2007).

33. MICHAEL R. MARRUS, *SOME MEASURE OF JUSTICE: THE HOLOCAUST ERA RESTITUTION CAMPAIGN OF THE 1990S* 40 (2009) (quoting Eric Gibson, *De Gustibus: The Delicate Art of Deciding Whose Art It Is*, WALL ST. J. (July 16, 1999)).

34. Gesetz über Einziehung von Erzeugnissen entarteter Kunst [Act on the Confiscation of Works of Degenerated Art], May 31, 1938, REICHSGESETZBLATT, Teil I [RGL I] at 612 (Ger.) (“Works of degenerate art, which have been seized in museums and in public collections before the commencement of this act . . . , may be confiscated in favor of the Reich without compensation if these works have been, at the time when they were seized, the property of private nationals of the Reich or of domestic juristic persons.”).

and the Netherlands under Nazi control, where people had time to adjust to the new circumstances and possibly retain records. The Nazis saw Slavs as racially inferior, and these prejudices led to indiscriminate looting and destruction in Eastern European countries in contrast to meticulous recordkeeping of takings in Western Europe. Different ideologies³⁵ drove the manner, intention, and pace of looting in countries like Poland and Hungary and manifested itself in marked characteristics.³⁶

In the immediate post-war years, survivors tried to find their families and a way back to life.³⁷ Surviving owners of Nazi-looted art were not always able to confront the horrors they lived through and also faced ongoing anti-Semitism. When the widow of the prominent Dutch art dealer Jacques Goudstikker returned to The Netherlands in 1946 and tried to reclaim his art collection, she, like many others, faced enmity and bureaucracy, making a recovery difficult. Despite filing a timely claim and having the necessary paperwork to prove her ownership, she could not recover her husband's collection.³⁸

Even though attempts to locate and recover Nazi-looted art followed on the heels of World War II, post-war conditions in Europe, such as lack of resources and incomplete information and communication made restitution efforts difficult. The focus shifted from what should be done to what could be achieved most easily. With the cold war, Nazi-looted art was out of sight, and the matter was dormant for decades. Until the mid-1990s, only a handful of mostly unsuccessful lawsuits related to the Holocaust were filed in the United States.³⁹ After the fall of the Berlin Wall, archives in the East became available for the first time since World War II, essential documents were declassified, and the reunification of the two German states prompted a re-engagement with the restitution question.⁴⁰

Compared to immovable property, the movement of artworks is challenging to trace and reconstruct, and restitution of nonfungible moveable property is a complex issue. Unlike bank accounts or insurance policies, art is not fungible, and each looted art

35. The [de]spoliation of Jews in the German Reich escalated over many years while similar devastation occurred in occupied territories within months. Sidney Jay Zabudoff, *Estimating Jewish Wealth*, in *THE PLUNDER OF JEWISH PROPERTY DURING THE HOLOCAUST: CONFRONTING EUROPEAN HISTORY* 48 (Avi Beker ed., 2001). For a country-by-country survey in Eastern Europe, see Laurence Weinbaum, *Defrosting History: The Restitution of Jewish Property in Eastern Europe*, in *id.* at 93–107.

36. MICHAEL J. KURTZ, *NAZI CONTRABAND: AMERICAN POLICY ON THE RETURN OF EUROPEAN CULTURAL TREASURES, 1945–1955* 268 (1985). See also DEAN, *supra* note 31, at 173–221.

37. It is important to remember that while the fighting ended in 1945, the aftermath continued much longer with the last Displaced Persons Camp closing in 1957. *Displaced Persons Camps*, YAD VASHEM, <https://www.yadvashem.org/articles/general/displaced-persons-camps.html> [https://perma.cc/3SSP-QNF3] [<http://web.archive.org/web/20221011230903/https://www.yadvashem.org/articles/general/displaced-persons-camps.html>].

38. Lawrence M. Kaye, *Avoidance and Resolution of Cultural Heritage Disputes: Recovery of Art Looted During the Holocaust*, 14 WILLAMETTE J. INT'L L. & DIS. RES. 243, 248 (2006).

39. See ROGER P. ALFORD & MICHAEL J. BAZYLER, *HOLOCAUST RESTITUTION: PERSPECTIVES ON THE LITIGATION AND ITS LEGACY* xiii (2006). See generally Michael J. Bazylar, *From Lamentation and Liturgy to Litigation: The Holocaust-Era Restitution Movement as a Model for Bringing Armenian Genocide-Era Restitution Suits in American Courts*, 95 MARQ. L. REV. 245 (2011).

40. MICHAEL MARRUS, *SOME MEASURE OF JUSTICE: THE HOLOCAUST ERA RESTITUTION CAMPAIGN OF THE 1990S*, 75–81 (2006).

restitution case is a one-on-one dispute.⁴¹ As demonstrated by the Paul Rosenberg collection,⁴² even artworks belonging to the same owner have entirely different fates, and each case has to be proven individually. The post-war trajectory of Nazi-looted art to its current possessor can be decisive for the outcome of a restitution claim. As a matter of fairness and justice, it is not reasonable that circumstances out of the original owner's control should determine the outcome of his claim. It is unjust to the current possessor that whether he acquired good title depends on what country a previous purchase occurred in, with widely different outcomes. None of the common justifications for good faith acquisition⁴³ or statutes of limitations (incentivizing owners to protect against theft and speedily pursue recovery)⁴⁴ apply to Nazi-looted art: extra precautions against theft could not have prevented the spoliation.

B. PROVENANCE

The importance of provenance research⁴⁵—reconstructing the path of the artwork from its creation to its current possessor—is not limited to legal implications. Provenance research is essential for art historians and provides insights into the developments of collecting and taste.⁴⁶ Establishing an unbroken chain of title transfer is crucial and central in determining whether the current holder of Nazi-looted art or a Covered Object is the owner or a mere possessor. A basic understanding of the art market's development and collecting trends concerning European art is indispensable

41. The proposed solution also addressed the individual litigation problem as further discussed *infra* at III A.

42. The heirs of Paris art dealer Paul Rosenberg have successfully pursued numerous restitution claims aided by Rosenberg's meticulous records. *See, e.g.*, Benjamin Sutton, *The Famed Jewish Art Dealer Who Fought to Retrieve 400 Stolen Works from the Nazis*, ARTSY (Jan. 14, 2019), <https://www.artsy.net/article/artsy-editorial-famed-jewish-art-dealer-fought-retrieve-400-stolen-works-nazis> [<https://perma.cc/VBN8-9LSN>] [<https://web.archive.org/web/20221011232529/https://www.artsy.net/article/artsy-editorial-famed-jewish-art-dealer-fought-retrieve-400-stolen-works-nazis>]. The same is true for the collection of the Jewish collector Fritz Grünbaum as discussed *infra*.

43. Several European jurisdictions in the civil law system allow for good faith acquisition. In the U.S., the "*nemo dat quod non habet*" rule makes it impossible for a purchaser or possessor to ever obtain title to a stolen object, regardless of their good faith.

44. *See* Alan Schwartz & Robert E. Scott, *Rethinking the Laws of Good Faith Purchase*, 111 COLUM. L. REV. 1332, 1332 (2011), pointing out that "[a]n owner will take optimal precautions to prevent theft if she is faced with the loss of her goods; and a purchaser will make an optimal investigation into his seller's title if faced with the loss of the goods. An owner and a buyer cannot both be faced with the full loss, however. This presents a problem of 'double moral hazard' and it cannot be solved in a first-best efficient way."

45. *See generally* NANCY H. YEIDE, KONSTANTIN AKINSHA, & AMY WALSH, *THE AAM GUIDE TO PROVENANCE RESEARCH* (American Ass'n of Museums 2001); *PROVENANCE: AN ALTERNATE HISTORY OF ART* (Gail Feigenbaum & Inge Reist eds., 2012). *See also* links to databases and bibliography of relevant works at the Museum of Modern Art, *Provenance Research Project*, MOMA, <https://www.moma.org/collection/provenance> [<https://perma.cc/L323-JNFW>] [<http://web.archive.org/web/20221018041426/https://www.moma.org/collection/provenance>] (last visited Oct. 31, 2022); resources listed by LOOTED.ART.COM, <https://www.lootedart.com/research-resources> [<https://perma.cc/9VBC-G7M2>] [<https://web.archive.org/web/20221226135219/https://lootedart.com/research-resources>], and IFAR's Provenance Guide, *Provenance Guide*, IFAR, https://ifar.org/provenance_guide.php [<https://perma.cc/JBM6-M3GM>] [http://web.archive.org/web/20220901062425/https://www.ifar.org/provenance_guide.php].

46. AAM GUIDE, *supra* note 45, at 1.

for provenance research. Knowledge of the Nazis' war on culture and related looting⁴⁷ is essential to picking up on clues and drawing the necessary conclusions.

Tracing ownership history is no easy feat, and provenance research rests on three main pillars:⁴⁸ (1) the object itself (if available) and the information it provides; (2) primary resources, and (3) secondary resources. Access to the object and as many primary and secondary resources as possible dramatically increases the chances of determining the object's provenance. The original owner, by default, lacks possession of the physical object. Panels and canvases should be removed from the frame and examined carefully for beveling, cradling, remounting, relining, restretching, and possible reductions in size.⁴⁹ The front of the painting can show a signature, inscriptions, or other distinctive markings, all of which need to be recorded carefully. Information on the verso⁵⁰ includes custom and dealer stamps; auction, collector, and museum labels; exhibition stickers; transport labels; and wax seals. Other objects such as books, furniture, photographs, or prints pose their own challenges and problems.⁵¹

Finding the transfer of ownership documentation is often complicated, challenging, and time- and resource-intensive. Bills of sale, contracts, wills, receipts, and other primary resources such as records or inventory books may not have been produced at the time or may have been destroyed (on purpose or through acts of war or nature), lost, or are inconclusive.⁵² Often, multiple secondary resources, such as exhibition catalogues, monographs, publications, auction catalogues,⁵³ catalogues raisonné, business and insurance records, telephone books, correspondence and wills, newspaper advertisements, library⁵⁴ and museum⁵⁵ archives, card catalogues, and online databases⁵⁶ can provide the relevant clue. Provenance researchers must rely on primary and secondary sources without blindly trusting any record, as sources may contain mistakes and omissions. A basic understanding of art and collecting history as well as

47. See AAM GUIDE, *supra* note 45, at 37–135 for detailed U.S. and European resources, red flags, and numerous case studies.

48. See AAM GUIDE, *supra* note 45, at 17 for the case study *Portrait of James Hay* and *id.* at 30 for the case study *Holbein, Sir Bryan Tuke*.

49. AAM GUIDE, *supra* note 45, at 12.

50. See generally Tom Rooth, *5 Things You Can Learn From the Back of a Painting*, CHRISTIE'S (June 9, 2022), <https://www.christies.com/features/What-you-can-learn-from-the-back-of-a-painting-6359-1.aspx> [<https://perma.cc/6MKV-GP98>] [https://web.archive.org/web/20221011235248/https://www.christies.com/features/8-things-you-can-learn-from-the-back-of-a-painting-10293-1.aspx?sc_lang=en].

51. Christian Fuhrmeister & Meike Hopp, *Rethinking Provenance Research*, 11 GETTY RES. J. 213, 217 (2019).

52. AAM GUIDE, *supra* note 45, at 9.

53. See, e.g., *German Sales Catalogs, 1930–1945*, GETTY, http://www.getty.edu/research/tools/provenance/german_sales.html [<https://perma.cc/3CEJ-F5CD>] [https://web.archive.org/web/20221011235741/http://www.getty.edu/research/tools/provenance/german_sales.html] (last visited Oct. 31, 2022).

54. See, e.g., *World War II-Era Provenance Research*, THE FRICK COLLECTION, <https://www.frick.org/art/provenance> [<https://perma.cc/UBQ8-Z5AW>] [<https://web.archive.org/web/20221012000223/https://www.frick.org/art/provenance>] (last visited Oct. 31, 2022).

55. If they are well maintained, institutional files should contain some or all of the following files and information: conservation, curatorial, donor and registrar. See AAM GUIDE, *supra* note 45, at 15.

56. See *id.*

political history, genealogy, and law is required for this interdisciplinary research.⁵⁷ It took the heirs of the collectors Max and Rosy Fischer and the museum holding a painting by Ernst Ludwig Kirchner with several different titles ten years to reconstruct its history and discover its provenance. A historical postcard depicting the dunes at Grünau and a woodcut by the artist showing the site provided the final clue that the work was indeed *Sandberge bei Grünau (Sand Hills (Bei Gruenau))*.⁵⁸ In the case of *Portrait de jeune femme assise (Portrait of a seated woman)* by Thomas Couture, the crucial clue was a minuscule hole in the canvas reported by the original owner in her restitution claim at the end of the war.⁵⁹

This overview shows that provenance research goes beyond the due diligence requirement of checking one or numerous stolen art databases. A listing on such databases requires conducting provenance research, and the original owner needs sufficient documentary evidence to prove his ownership of the artwork. Obstacles to implementing the Washington Principles calling for the identification and publication of Nazi-looted art include insufficient funding, time limitations, lack of coordination, data privacy barriers, restrictive regulations and permissions, insufficient dissemination of results, and object-based research instead of more proactive systematic collections-based research.

An overarching architecture and vision are needed.⁶⁰ However, unfortunately, “the status quo is characterized not by cutting-edge research and excellence but by a state of incrustation that is crumbling here and there.”⁶¹ Financial restrictions cause further shortcomings, like results not being available in English or omitted footnotes. While new technology like blockchain⁶² is not the fix-all solution to provenance it sometimes

57. AAM GUIDE, *supra* note 45, at 141.

58. See *Sand Hills in Grünau (Translation) Bei Gruenau (Primary Title)*, VA. MUSEUM OF FINE ARTS, <https://www.vmfamuseum.org/piction/6027262-65198775> [<https://perma.cc/HA3L-96V>] [<https://web.archive.org/web/20221012000701/https://vmfa.museum/piction/6027262-65198775>] (last visited Oct. 31, 2022).

59. See *Project Gurlitt Identifies Painting by Thomas Couture as Nazi-Looted Art*, GERMAN LOST ART FOUND. (Oct. 25, 2017), https://www.kulturgutverluste.de/Content/02_Aktuelles/EN/Press-releases/2017/17-10-25_Gurlitt-Couture-nazi-looted-art.html [<https://perma.cc/7EWF-4SQS>] [https://web.archive.org/web/20221012001008/https://www.kulturgutverluste.de/Content/02_Aktuelles/EN/Press-releases/2017/17-10-25_Gurlitt-Couture-nazi-looted-art.html].

60. Christian Welzbacher recognized in 2012 that: “Only the bundling of resources and capacities—or to put it another way, an end to the currently promoted academic short-windedness—will result in [...] ‘plunder and restitution’ being researched in the necessary depth, that is to say independently of academic fashion and political differences and guided instead by scientific imperatives.” Christian Welzbacher, *Kunstschutz, Kunstraub, Restitution. Neue Forschungen zur Geschichte und Nachgeschichte des Nationalsozialismus*, H/SoZ/KULT (Dec. 13, 2012), <https://www.hsozkult.de/literaturereview/id/forschungsberichte-1296> [<https://perma.cc/F8HP-2GDU>] [<https://web.archive.org/web/20221014163027/https://www.hsozkult.de/literaturereview/id/forschungsberichte-1296>] (author’s English translation).

61. Fuhrmeister & Hopp, *supra* note 51, at 222.

62. Blockchain is an innovative approach to governance based on a decentralized system recording transactions in a ledger with information preserved in all computers participating in the network. Any change necessitates recording a new transaction to enter additional or correcting information. Blockchain has permeated the art market in different variations. See, e.g., Noah Sandberg, *Artory Collaborates with Christie’s on an Industry First: Registration of Major Art Collection Sale with Secure Blockchain Technology*, BUSINESS WIRE (Oct. 11, 2018, 11:21 AM), <https://www.businesswire.com/news/home/20181011005616/en/Artory-Collaborates-Christie%E2%80%99s-Industry-Registration-Major-Art> [<https://perma.cc/QYR7-DV8N>]

is hailed to be, finding structures to link metadata and existing documentation is an important next step.⁶³ Provenance research must move out of the art history corner it has been relegated to for so long and must be recognized as the interdisciplinary project it is, involving historians, jurists, and information technology specialists necessary to establish a trustworthy infrastructure based on the FAIR principles⁶⁴—findability, accessibility, interoperability, and reusability. Borrowing from legal document review platforms to build synergies is another avenue ripe for exploration.⁶⁵

C. PREMIUM

Despite the widespread reporting on the extent of Nazi looting in Europe during and after the war, due diligence standards in the art market were lax and willfully ignorant for decades. As late as the 1990s, major museums accepted donations or acquired works with missing or dubious provenance.⁶⁶ Since the 1998 Washington Conference on Holocaust-Era Assets, the art market has become more sensitive to and responsible in its dealings with Nazi-looted art.

In 2014, two Schiele paintings previously owned by Fritz Grünbaum, a Viennese cabaret performer and art collector who died in the Dachau concentration camp, came to auction.⁶⁷ The gouache and black crayon on paper, *Sitzende mit angezogenem linken Bein (Torso) (Seated Woman With Bent Left Leg (Torso))*, was the subject of lengthy and

[<https://web.archive.org/web/20221014164125/https://www.businesswire.com/news/home/20181011005616/en/Artory-Collaborates-Christie%E2%80%99s-Industry-Registration-Major-Art>]; see also *The Barney A. Ebsworth Collection Sale—A Landmark for the American Art Market*, CHRISTIE'S (Dec. 12, 2018), <https://www.christies.com/features/Barney-Ebsworth-Collection-results-9552-3.aspx> [<https://perma.cc/A97Y-PJ57>] [<https://web.archive.org/web/20221014164606/https://www.christies.com/features/Barney-Ebsworth-Collection-results-9552-3.aspx>].

63. Fuhrmeister & Hopp, *supra* note 51, at 226.

64. See generally Mark D. Wilkinson et al., *The FAIR Guiding Principles for Scientific Data management and Stewardship* (Mar. 15, 2016), <https://www.nature.com/articles/sdata201618#citeas> [<https://perma.cc/U4HW-UDAJ>] [<https://web.archive.org/web/20221014164935/https://www.nature.com/articles/sdata201618>].

65. See the Getty Research Institute's project Provenance Research Reaches across Getty in the Digital Age with Sandra van Ginhoven, which explores new approaches to digitalization of research and knowledge production. Judith Barr, *Provenance Research Reaches Across Getty in the Digital Age* (Apr. 8, 2020), <https://www.getty.edu/news/provenance-research-reaches-across-the-getty-in-the-digital-age> [<https://perma.cc/T2GF-ZS27>] [<https://web.archive.org/web/20230105141159/https://www.getty.edu/news/provenance-research-reaches-across-the-getty-in-the-digital-age>].

66. In 1994, the Met accepted the donation of a Monet without researching its provenance. See Walton, *supra* note 30, at 573. For the acquisition of *Wheat Field with Cypresses* by Vincent Van Gogh in 1998, despite a gap in ownership from 1939 (in the collection of a Jewish collector in Berlin) to 1951 see Judith H. Dobrzynski, *Tracing a Van Gogh Treasured by the Met*, N.Y. TIMES (Feb. 11, 1998), <https://www.nytimes.com/1998/02/11/arts/tracing-a-van-gogh-treasured-by-the-met.html> [<https://perma.cc/4WZK-HEJY>] [<https://web.archive.org/web/20221014165554/https://www.nytimes.com/1998/02/11/arts/tracing-a-van-gogh-treasured-by-the-met.html>].

67. See Eileen Kinsella, *Sotheby's and Christie's Split on Response to Nazi Victim's Art*, ARTNET (Oct. 27, 2014), <https://news.artnet.com/market/sothebys-and-christies-split-on-response-to-nazi-victims-art-145218> [<https://perma.cc/42G4-25D3>] [<https://web.archive.org/web/20221014170029/https://news.artnet.com/market/sothebys-and-christies-split-on-response-to-nazi-victims-art-145218>].

contentious litigation in *Bakalar v. Vavra*.⁶⁸ A federal court in New York ruled against the Grünbaum heirs, denying their claim for restitution based on the equitable laches defense. The claimants' undue delay in seeking restitution prevented a recovery.⁶⁹ The court, however, also found that the current possessor David Bakalar could not prove he had good title. Despite a pre-sale estimate of \$1,200,000–\$1,800,000, the work sold for \$1,325,000.⁷⁰

The next day another Schiele work, the watercolor *Stadt am blauen Fluss (Krumau)* (*Town on the Blue River*), sold at auction. It was also part of Fritz Grünbaum's collection and shared an uncertain provenance.⁷¹ Had a restitution claim been litigated, it would likely have shared a similar fate to *Seated Woman With Bent Left Leg*. Christie's sales announcement omitted reference to Grünbaum's sister-in-law Mathilde Lukacs⁷² and instead listed Schenker & Co., Vienna (1938) in the provenance immediately following Mr. Grünbaum.⁷³ The work was subject to a restitution agreement, publicized in the pre-sale announcement and advertising: "The present work is being offered for sale pursuant to a settlement agreement between the consignor and the Grünbaum Heirs. This resolves any dispute over ownership of the work and title will pass to the buyer." The realized price of \$2,965,000 greatly exceeded the pre-sale estimate of \$800,000–

68. *Bakalar v. Vavra*, 550 F. Supp. 2d 548 (S.D.N.Y. 2008); *Bakalar v. Vavra*, 500 F. App'x 6 (2d Cir. 2012). The case was a declaratory action brought by the current possessor Bakalar to quiet title. This approach is not unusual in litigation dealing with Nazi-looted art. See *Toledo Museum of Art v. Ullin*, 477 F. Supp. 2d 802 (N.D. Ohio 2006); see also *Detroit Inst. of Arts v. Ullin*, No. 06-10333, 2007 WL 1016996 (E.D. Mich. Mar. 31, 2007).

69. The district court found that Vavra and Fischer's "ancestors were aware of—or should have been aware of—heir potential intestate rights to Grünbaum's property," and that the ancestors "were not diligent in pursuing their claims to the Drawing." *Bakalar v. Vavra*, 819 F. Supp. 2d 293, 305–6 (S.D.N.Y. 2011), *aff'd*, 500 F. App'x 6 (2d Cir. 2012).

70. For final price, see *Impressionist & Modern Art Evening Sale / Lot 66*, SOTHEBY'S, <http://www.sothebys.com/en/auctions/ecatalogue/2014/impressionist-modern-art-evening-sale-n09219/lot.66.html> [<https://web.archive.org/web/20221014172342/http://www.sothebys.com/en/auctions/ecatalogue/2014/impressionist-modern-art-evening-sale-n09219/lot.66.html>], and *Art Auction Result for Egon Schiele*, FINDARTINFO.COM, <http://www.findartinfo.com/english/list-prices-by-artist/1/54696/egon-schiele/page/2.html> [<https://perma.cc/9Y9K-HWNY>] [<https://web.archive.org/web/20230105143930/http://www.findartinfo.com/english/list-prices-by-artist/1/54696/egon-schiele/page/2.html>].

71. See *The Lost Collection of Fritz Grünbaum*, COLLECTION GRÜNBAUM, <http://www.collectiongruenbaum.com/wp-content/uploads/2016/09/JK-742.pdf> [<https://perma.cc/2TMV-ECTS>] [<https://web.archive.org/web/20221017004459/https://www.collectiongruenbaum.com/>]; but see Kate Lucas, *As Two Schieles Sell at November Auctions, Debate Continues Over Holocaust-Era Restitution Issues*, GROSSMAN LLP (Dec. 2, 2014), <http://www.grossmanllp.com/as-two-schieles-sell-at-november-auctions-debate-continues> [<https://perma.cc/P854-H4CT>] [<https://web.archive.org/web/20221014173521/https://www.grossmanllp.com/as-two-schieles-sell-at-november-auctions-debate-continues>].

72. The question of whether and how Grünbaum's sister-in-law Mathilde Lukacs-Herzl came into possession and later sold some of his collection to Swiss dealers remains a matter of debate.

73. See *Live Auction 2888 Impressionist & Modern Evening Sale / Lot 7*, CHRISTIE'S (Nov. 4, 2014), <http://www.christies.com/lotfinder/Lot/egon-schiele-1890-1918-stadt-am-blauen-fluss-5840850-details.aspx> [<https://perma.cc/S3UH-9DGL>] [<https://web.archive.org/web/20221014173857/https://www.christies.com/lot/lot-egon-schiele-1890-1918-stadt-am-blauen-fluss-5840850/>?]; but see David D'Arcy, *What Makes a Sale a Restitution?*, ART NEWSPAPER (Nov. 5, 2014), <https://www.lootedart.com/news.php?r=QX52V6406191> [<https://perma.cc/LA6Q-TVPC>] [<https://web.archive.org/web/20221014174342/https://www.lootedart.com/news.php?r=QX52V6406191>] (for the view that Christie's controversial sale announcement rewrote history).

\$1,200,000, thus suggesting that the market values legal title and is willing to pay a premium to remove any specter of clouded title.⁷⁴

The recent sale of Claude Monet's *La mare, effet de neige*, previously owned by Richard Semmel and subject to a settlement agreement also exceeded its high estimate in May 2022, supporting this hypothesis.⁷⁵

II. DEFECTS IN THE ART MARKET

Part II.A introduces the scope and scale of information deficits in the art market, *Part II.B* outlines the three categories of information deficits and *Part II.C* introduces the Lemon Market and discusses two case studies illustrating existing market failures.

A. NAZI-LOOTED ART AND SYSTEMIC INFORMATION DEFICITS

Information deficits are part of every economic transaction, either as a unilateral lack of information (asymmetric information)⁷⁶ or mutual lack of information (uncertainty). The international community continues to wrestle with Nazi-looted art at international conferences.⁷⁷ The U.S. government addressed the issue through legislation, such as the Holocaust Victims Redress Act,⁷⁸ the Nazi War Crimes Disclosure Act in 1998,⁷⁹ the HEAR Act of 2016,⁸⁰ and the Justice for Uncompensated

74. Many factors influence the final hammer price, and this assumption should not be overstated. However, a representative at a major New York auction house confirmed in a personal interview with the author that buyers are willing to pay a premium and works with a restitution agreement generally achieve higher prices.

75. See the auction result for Lot C at *CLAUDE MONET (1840–1926): La Mare, Effet De Neige*, CHRISTIE'S (May 11, 2022) https://www.christies.com/lot/lot-6368782?ldp_breadcrumb=back&intObjectID=6368782&from=salessummary&lid=1 [<https://perma.cc/G4UX-2ULJ>] [https://web.archive.org/web/20220605150738/https://www.christies.com/lot/lot-6368782?ldp_breadcrumb=back&intObjectID=6368782&from=salessummary&lid=1] and the Christie's press release *Christie's Announces Monet's La Mare, Effet De Neige*, CHRISTIE'S (Apr. 13, 2021), https://www.christies.com/presscenter/pdf/10451/REL_MONET_10451_1.pdf [<https://perma.cc/TJ8N-G8NT>] [https://web.archive.org/web/20221015073642/https://www.christies.com/presscenter/pdf/10451/REL_MONET_10451_1.pdf].

76. The high level of fragmentation in the art market fosters asymmetric information, which in turn leads to high transaction costs. MCANDREW, *supra* note 11, at 13.

77. See, e.g., Vilnius International Forum on Holocaust-Era Spoliated Cultural Assets 2000: *Vilnius Forum Declaration 5 October 2000*, LOOTEDART.COM, <https://www.lootedart.com/MFV7EE39608> [<https://perma.cc/5CYC-CR97>] [<https://web.archive.org/web/20230105151717/https://www.lootedart.com/MFV7EE39608>]; 2009 *Terezin Declaration on Holocaust Era Assets and Related Issues*, U.S. DEPT OF STATE, <https://www.state.gov/prague-holocaust-era-assets-conference-terezin-declaration> [<https://perma.cc/4BH2-6LGW>] [<https://web.archive.org/web/20221028093140/http://www.state.gov/prague-holocaust-era-assets-conference-terezin-declaration>]; and the 2018 international conference *20 Years Washington Principles: Roadmap for the Future*, GER. LOST ART FOUND., https://www.kulturgutverluste.de/Content/01_Stiftung/EN/Event-review/2018/Program-20-Years-Washington-Principles-Roadmap-to-the-Future.pdf?__blob=publicationFile&v=2 [<https://perma.cc/FZ2L-VFBM>] [https://web.archive.org/web/20230105152431/https://www.kulturgutverluste.de/Content/01_Stiftung/EN/Event-review/2018/Program-20-Years-Washington-Principles-Roadmap-to-the-Future.pdf?__blob=publicationFile&v=2].

78. Holocaust Victims Redress Act (HVR), Pub. L. No. 105-158, 112 Stat. 15 (1998).

79. Nazi War Crimes Disclosure Act, Pub. L. No. 105-246, 112 Stat. 1859 (1998).

80. HEAR Act of 2016, *supra* note 9.

Survivors Today (JUST) Act of 2017.⁸¹ The European Union addressed the topic in the Council of Europe Resolution 1205 on Spoliated Jewish Cultural Property (1999) “Looted Jewish Cultural Property.”⁸² National governments⁸³ grapple with the problem in cultural patrimony⁸⁴ and good faith purchase⁸⁵ legislation and institutions respond to the change in perception and attitude by creating provenance research professorships⁸⁶ and provenance curator positions.⁸⁷

Despite these laudable efforts, the inherent logic of the art market penalizes the disclosure of information. As in any market, moral hazard⁸⁸ bars the direct transfer of information between market participants, as each party has reasons to withhold or exaggerate information. Search and transaction costs can make independent verification economically or factually impossible. The expert, whose commission is based on the work’s quality and price, authenticates a masterpiece if he has reasonable grounds to do so.⁸⁹ The auctioneer or dealer is happy since he can make a profit from the sale. The seller makes money, and the buyer is excited to see a masterpiece appear on the market. None of the art market constituents, short of the buyer’s appraiser, is interested in exposing the work as a forgery or loot, and appraisers explicitly assume good title. There is little incentive to disclose information that would or could expose the work as a forgery or Nazi-looted art. Resistance to information sharing is not

81. Justice for Uncompensated Survivors Today (JUST) Act of 2017, Pub. L. 115-171, 132 Stat. 1288 (2018).

82. Resolution on Looted Jewish Cultural Property, EUR. PARL. ASS. Resolution 1205 (1999).

83. ARTS COUNCIL ENGLAND, RESTITUTION AND REPATRIATION: A PRACTICAL GUIDE FOR MUSEUMS IN ENGLAND (2022).

84. Kulturgutschutzgesetz [KGSG] [Cultural Property Protection Act], July 31, 2016, BUNDESGESETZBLATT [BGBl] at 1914 (Ger.). The German Cultural Property Protection Act makes special provision for the deletion from the registry if “it has been established with final and binding effect or through final agreement between the stakeholders that the former owner was deprived of the cultural property between 30 January 1933 and 8 May 1945 due to National Socialist persecution and that the cultural property should be exported from the federal territory in order to restitute it to former original owners or their legal successors living outside the federal territory.” *Id.* § 13(2).

85. See Marc-André Renold, *Cross-Border Restitution Claims of Art Looted in Armed Conflicts and Wars and Alternatives To Court Litigations*, DIRECTORATE GENERAL FOR INTERNAL POLICIES POLICY DEPARTMENT C: CITIZENS’ RIGHTS AND CONSTITUTIONAL AFFAIRS (2016) [https://www.europarl.europa.eu/RegData/etudes/STUD/2016/556947/IPOL_STU\(2016\)556947_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2016/556947/IPOL_STU(2016)556947_EN.pdf), [<https://perma.cc/6W7M-WNCB>] [[https://web.archive.org/web/20220901053652/https://www.europarl.europa.eu/RegData/etudes/STUD/2016/556947/IPOL_STU\(2016\)556947_EN.pdf](https://web.archive.org/web/20220901053652/https://www.europarl.europa.eu/RegData/etudes/STUD/2016/556947/IPOL_STU(2016)556947_EN.pdf)] discussing the Swiss Federal Law on the International Transfer of Cultural Property, 20 June 2003, RO 2005 1869.

86. Fuhrmeister & Hopp, *supra* note 51, at 216.

87. See, e.g., Museum of Fine Arts Boston—Monica S. Sadler Curator for Provenance, *Art of Europe. Ownership Resolutions*, MFA BOSTON, <https://www.mfa.org/collections/provenance/ownership-resolutions> [<https://perma.cc/3DNG-22MF>] [<https://web.archive.org/web/20230105153501/https://www.mfa.org/collections/provenance/ownership-resolutions>]; Derek Fincham, *A New Museum Position: Curator of Provenance*, ILLICIT CULTURAL PROP. (Dec. 13, 2011), <http://illicitculturalproperty.com/a-new-museum-position-curator-of-provenance> [<https://perma.cc/U82J-R3BC>] [<https://web.archive.org/web/20230105153220/http://illicitculturalproperty.com/a-new-museum-position-curator-of-provenance>].

88. Richard Brealey, Hayne E. Leland & David H. Pyle, *Informational Asymmetries, Financial Structure, and Financial Intermediation*, 32 J. OF FINANCE No. 2 371, 371 (1977).

89. See Raul Jauregui, *Rembrandt Portraits: Economic Negligence in Art Attribution*, 44 UCLA L. REV. 1947, 1964 (1996).

unique to the art market, and information holders “who are privy to special information are generally thought to be unwilling to signal that information to the market.”⁹⁰

An exact measure via empirical data or mathematical capture concerning the actual number of items looted by the Nazis⁹¹ and the still existing artworks subject to a restitution claim is impossible. However, enough historical evidence exists to corroborate the continuing existence of Nazi-looted art and justify a scholarly exploration of the issue. According to some reports, over three million objects were separated from their owners during the Third Reich.⁹² Other estimates approximate that the Nazis controlled “one-fifth of all Western art then in existence”⁹³ or as much as a quarter of all artworks in Europe,⁹⁴ with an estimated worth of over \$2.5 billion in 1945⁹⁵ (roughly \$39 billion in 2022).⁹⁶ Marc Masurovsky, the Co-Founder of the Holocaust Art Restitution Project, estimates that ten to fifteen million cultural objects were taken across nineteen countries (including drawings, antiquities, collectibles, and furniture).⁹⁷ According to Masurovsky, the number of cultural objects still missing on, or with access to, the art market is believed to be in the six-figure range, with paintings accounting for around ten to fifteen percent of looted objects.⁹⁸

Not every looted artwork is a masterpiece housed in a museum or sold for millions of dollars at auction, and the high-profile cases making headlines are not necessarily representative. Countless individuals lost works that were valuable to them for non-monetary reasons. The costs of pursuing a restitution claim are high. Lawyers specializing in art claims suggest that “if the artwork is worth less than three million dollars, the work should be given up” rather than having the heirs expend “exorbitant sums on retrieval efforts.”⁹⁹ The fact that not all claims are pursued further impedes the possibility of obtaining an accurate assessment of how many works of art may be subject

90. Stephen A. Ross, *Disclosure Regulation in Financial Markets: Implications of Modern Finance Theory and Signaling Theory*, 5 ISSUES FIN. REG. 177, 178 (1979).

91. See generally NORMAN PALMER & LEILA ANGLADE, *MUSEUMS AND THE HOLOCAUST: LAW, PRINCIPLES AND PRACTICE* 6–12 (IAL 2001).

92. Andrew Kenyon & Simon Mackenzie, *Recovering Stolen Art: Australian, English and US Law on Limitations of Action*, 30 UW AUSTL. L. REV. 233, 234 (2001) (citing RICHARD Z. CHESNOFF, *PACK OF THIEVES: HOW HITLER AND EUROPE PLUNDERED THE JEWS AND COMMITTED THE GREATEST THEFT IN HISTORY* (1999)). Estimates vary. See PALMER & ANGLADE, *supra* note 91 (giving a succinct overview of looting by Nazi and other armed forces during the period 1933–1945).

93. Howard N. Spiegler, *Recovering Nazi-Looted Art: Report from the Front Lines*, 16 CONN. J. INT'L L. 297, 298 (2000).

94. David Wissbroecker, *Six Klimts, a Picasso, & a Schiele: Recent Litigation Attempts To Recover Nazi Stolen Art*, 14 DEPAUL-LCA J. ART & ENT. L. 39, 40 (2004).

95. Kaye, *Avoidance and Resolution*, *supra* note 38, at 244.

96. DOLLARTIMES, <http://www.dollartimes.com/inflation/inflation.php?amount-1&year-1945> [https://web.archive.org/web/20221031225753/https://www.dollartimes.com/inflation/inflation.php?amount-1&year-1945] (last visited Oct. 20, 2022) (assuming standard inflation over the intervening period, rather than the estimated increase in the value of art, which may in some cases have outpaced inflation).

97. See Marc Masurovsky, *Holocaust Art Restitution Project*, ARTTACTIC (Dec. 21, 2012) <https://arttactic.com/podcasts/page/38> [https://perma.cc/2L7U-6XYR] [https://web.archive.org/web/20230105155430/https://arttactic.com/podcasts/page/38].

98. *Id.*

99. Barbara J. Tyler, *Stolen Museum: Have United States Art Museums Become Inadvertent Fences for Stolen Art Works Looted by the Nazis in World War II?*, 30 RUTGERS L. J. 441, 445 (1998) (citing Marilyn Henry, *Recovering Looted Art: A Rich Man's Game*, JERUSALEM POST, Apr. 3, 1998, at 17).

to restitution. Estimates about Nazi-looted art's total value vary from at least \$10 billion¹⁰⁰ to \$250 billion.¹⁰¹

The number of living original pre-war owners is declining, and so is the number of living initial post-war possessors; however, the problem of Nazi-looted art without title remains. Different curatorial tastes and interests or the inability of heirs to agree on their disposition bring artworks to the market for the first time in decades. The number of Nazi-looted works coming to the market is increasing and will likely continue to grow in the future,¹⁰² expanding the toxic asset pool of title-less artwork. In addition, the digitalization of archives and records is providing more and easier access to relevant information.

The Federal Bureau of Investigation's Art Crime Team has seen an upward trend in their investigations concerning Nazi-looted art.¹⁰³ According to Monica Dugot, the former International Director of Restitution at Christie's, the auction house has been involved in the resolution of over 200 Nazi-looted art claims since 1998, and roughly a quarter of them occurred during the past five years.¹⁰⁴ About twenty percent of these claims concerned artworks with a market value of less than \$10,000.¹⁰⁵ Lucian Simmons, Vice Chairman Restitution at Sotheby's, reported that the auction house consistently deals with fifteen to twenty restitution claims a year.¹⁰⁶

Growing availability and accessibility of information also call past assessments into question. Based on new information, a work vetted and cleared in the past may now be problematic. In one such instance, Renoir's *Deux Femmes Dans Un Jardin* was returned to the granddaughter of the pre-war owner Alfred Weinberger in New York in

100. Marilyn E. Phelan, *Scope of Due Diligence Investigation in Obtaining Title To Valuable Artwork*, 23 SEATTLE U.L. REV. 631, 660 (1999) (quoting Ronald Lauder).

101. See generally Walton, *supra* note 30.

102. "Boston College's Social Welfare Institute estimates that of the \$41 trillion that it projects will pass intergenerationally by 2052, between \$4 and \$6 trillion will represent art and antique assets." RAMSAY H. SLUGG, HANDBOOK OF PRACTICAL PLANNING FOR ART COLLECTORS AND THEIR ADVISORS 16 (2019). "In our experience, most of the inherited works of art and collectibles are sold." *Profit or Pleasure? Exploring the Motivations Behind Treasure Trends*, BARCLAYS, <http://www.enograf.com/media/pdf/Profit%20ili%20zadovoljstvo%20-%20kompletan%20izvestaj.pdf> [<https://web.archive.org/web/20221031232048/http://www.enograf.com/media/pdf/Profit%20ili%20zadovoljstvo%20-%20kompletan%20izvestaj.pdf>] (last visited Oct. 31, 2022).

103. Christopher McKeogh, FBI, Art and Antiquities Crimes, Due Diligence: A Symposium on Vetting Works of Art, Event with Association of Professional Art Advisors at Christie's (Jan. 25, 2019) (explaining that the Federal Bureau of Investigation mostly becomes involved in the investigation of Nazi-looted art at the request of a foreign government, auction houses, or other art market intermediaries or attorneys for victims and/or their heirs) (personal notes on file with author).

104. Monica Dugot, International Director of Restitution at Christie's, Due Diligence: A Symposium on Vetting Works of Art, *supra* note 103.

105. Nicholas O'Donnell, *When Will We Get There? The World Gathers in London To Consider the State of Restitution of Nazi-Looted Art*, SULLIVAN LAW ART L. REP. (Sept. 15, 2017, 5:13 PM), <https://blog.sullivanlaw.com/artlawreport/when-will-we-get-there-the-world-gathers-in-london-to-consider-the-state-of-restitution-of-nazi-looted-art> [<https://perma.cc/7WQG-MRE9>] [<https://web.archive.org/web/20221102001035/https://blog.sullivanlaw.com/artlawreport/when-will-we-get-there-the-world-gathers-in-london-to-consider-the-state-of-restitution-of-nazi-looted-art>].

106. Author interview with Lucian Simmons, Worldwide Head of Restitution Dep't, Sotheby's, in New York, N.Y. (Mar. 25, 2019) (notes on file with author).

September 2018.¹⁰⁷ An international auction house sold it as recently as 2005—before the Einsatzleiter Reichsleiter Rosenberg (“ERR”) archives were digitized and available online. The ERR archives are a meticulous repository of plundered and stolen artworks—records often include photographs and detailed descriptions.¹⁰⁸ For the Weinberger family, the ERR records provided a vital and, until recently, missing piece of information regarding the Renoir’s provenance. A systematic investigation and linking of these and other records and archives have yet to occur.

B. TYPES OF INFORMATION DEFICITS

The information deficits associated with Nazi-looted art can arise from three causes: asymmetric information, temporary uncertainty, or permanent uncertainty, also referred to as ambiguity.

1. Asymmetric Information

In the case of asymmetric information, the seller knows that the artwork is looted. If the artwork is listed on any stolen art database, withholding this information and purporting to transfer title to the buyer is apparent fraud. In these cases, the buyer merely purchases possession and the option to hang the work on his wall and enjoy it. He also acquires an illiquid asset and the risk of a lawsuit. The economics of possession without ownership—at least in a world with transaction costs—depend on the initial statutory assignment of rights and liability. Under U.S. law and the *nemo dat quod non habet* rule, title of stolen property remains with the pre-theft owner. The law makes it impossible for a later purchaser to obtain title, regardless of his good faith. The seller can only sell the buyer the property entitlement he has—possession but not title. Economic theory breaks the property entitlements down into four components: (1) use (U), (2) disposition (D) (such as earning income from loaning the good or using it as collateral), (3) transfer (T), and (4) exclusion of others (E). The standard assumption for a purchase transaction is that the purchase price (X) includes the complete bundle of property entitlements, including title. Buyer (B) is willing to pay X for the property, i.e., the artwork, only if Seller S can transfer all property rights to B. $X = U + D + T + E$. Since S, under U.S. law, does not have title to the looted artwork, he cannot transfer it to B. B, despite paying X, only receives $U + D + E - T$. Since the right to transfer

107. See Meagan Flynn, *Nazis Stole a Jewish Man’s Renoir Painting in 1941. Now It’s Been Returned To His Only Living Heir*, WASH. POST (Sept. 14, 2018, 6:19 AM), <https://www.washingtonpost.com/news/morning-mix/wp/2018/09/13/nazis-stole-a-jewish-mans-century-old-renoir-painting-in-1941-now-its-been-returned-to-his-only-living-heir> [<https://perma.cc/N9EN-LR22>] [<https://web.archive.org/web/20200317023100/https://www.washingtonpost.com/news/morning-mix/wp/2018/09/13/nazis-stole-a-jewish-mans-century-old-renoir-painting-in-1941-now-its-been-returned-to-his-only-living-heir>].

108. *The Einsatzstab Reichsleiter Rosenberg (ERR) Photographic Albums at the National Archives and Records Administration*, NAT’L ARCHIVES, <https://www.archives.gov/research/holocaust/international-resources/nara/err> [<https://perma.cc/47K6-BWCD>] [<https://web.archive.org/web/20230105164232/https://www.archives.gov/research/holocaust/international-resources/nara/err>]; see also *ERR Card File and Photos*, FOLD3, <https://www.fold3.com/publication/857/err-card-file-and-photos> [<https://perma.cc/U7ZQ-Q8RH>] [<https://web.archive.org/web/20230105164502/https://www.fold3.com/publication/857/err-card-file-and-photos>].

(having title and actual ownership) may also influence use, disposition, and exclusion rights, B, in this case, is paying $X = U^* + D^* + E^* - T$. B is receiving much less than he bargained for.

What are the consequences of acquisition of possession without title? The original owner's strong property right and protection under the *nemo dat quod non habet* rule is not as robust or economically meaningful as it initially appears. The current good-faith possessor does not have and cannot obtain title. However, she is not defenseless in protecting and shielding her possessory entitlement. The statute of limitations and the equitable defenses estoppel and laches can bar the original owner and holder of the title entitlement from enforcing ownership and retrieving property possession. The thief's inability to pass title is irreconcilable with the unenforceability of the original owner's claim culminating in the permanent disintegration and separation of the symbiotic relationship of title and possession.¹⁰⁹ It creates a perpetual disconnect between the property right and its legal enforceability. The owner cannot enforce his property claim and obtain an enforceable title. Nevertheless, this does not give the current possessor all property rights. The object is divorced from the property right of title in perpetuity.¹¹⁰

These artworks have limited to no resale utility value on the legitimate market. The current possessor may be able to exclude others by prevailing in a lawsuit, thereby giving him de facto exclusive rights. However, he did not receive the complete bundle of property rights. This defect depresses the value and leaves a permanent moral specter attached to the work. Many European jurisdictions try to avoid this permanent disconnect by allowing a good-faith purchaser to obtain title under certain circumstances, even from a thief.¹¹¹ A good-faith purchase reconciles the statute of limitations with ownership and reunites the entire bundle of property rights in one person. The concept ensures legal certainty and avoids leaving both parties with unsatisfactory outcomes. Depending on the route of a Nazi-looted work, foreign jurisdictions' laws and legal doctrines can implicate litigation before a U.S. court, if applicable, based on a conflict of law analysis.

The seller withholding information from the buyer is a classic case of information asymmetry. The issue is whether incentives exist for the seller to disclose his bad information. This depends on several factors, including trust and knowledge offered by market participants (dealers or auction houses) and technology (stolen art databases or Blockchain technology).

109. While the U.S. legal system has accepted this permanent separation, most civil law countries, driven by a desire for legal certainty and legal peace (*Rechtsfrieden*)—paired with a general sense of justice—have chosen a different route. See RESTITUTION AND MEMORY: MATERIAL RESTORATION IN EUROPE 3 (Dan Diner & Gotthart Wunberg eds., 2007).

110. See generally KLAUS MATHIS, EFFICIENCY INSTEAD OF JUSTICE?: SEARCHING FOR THE PHILOSOPHICAL FOUNDATIONS OF THE ECONOMIC ANALYSIS OF LAW, 51–84 (2009).

111. Bürgerliches Gesetzbuch [BGB] [Civil Code], § 937, para. 2 (acquisition by prescription) (Ger.).

2. Temporary Uncertainty

In the case of temporary uncertainty, neither the seller nor the buyer is aware of the work's provenance, and neither party knows that the object is Nazi-looted art. However, provenance research can determine that the artwork has been looted.¹¹² The current seller may have acquired the work as a good-faith purchaser without knowledge of the work's dark past. In this case, the seller, and the owner or heirs are often both referred to as innocent parties.¹¹³

Due diligence and research can reveal that the work was looted, leading to two related questions that need to be answered separately. First, is it worth finding out? And secondly, who should bear the cost of the expensive and time-consuming provenance research? Provenance research is costly in two ways: the actual monetary expense of paying for provenance research and the opportunity cost of not being able to afford another artwork based on the choice to spend resources on provenance research.

The statutory distribution of property entitlements suggests a clear answer to the first question. Standard transaction assumptions typically include obtaining ownership and title to the purchased object, indicating that this information is essential and worth obtaining. However, uncertainty needs to be distinguished from risk in determining the value of the information. Uncertainty is a "random variation according to an unknown probability law."¹¹⁴ Risk concerns an arbitrary deviation from a known quantity.

The risk of discovering Nazi-looted art needs to be assigned. The determination also addresses whether economies of scale are possible and which party is in the best position to avoid the cost (least cost avoider). Economic decisions are made on the margins, and risk assignment depends on the probability and amount of loss. Provenance research will either confirm that the painting was looted or, if inconclusive, move it from temporary uncertainty to the ambiguity category. If the provenance research reveals that the work was not looted, the possessor has legal title and can achieve a better price than he would have with unclear provenance.

3. Ambiguity (Permanent Uncertainty)

Permanent uncertainty is the third category a painting may fall into. In these cases, despite best efforts and investigation, it is impossible to fully and reliably establish the ownership chain. Artworks with provenance gaps fall into this category. It is impossible to determine *ex ante* whether the uncertainty is temporary or permanent, and research will determine the final classification. However, irresolvable ambiguity will impact the economic analyses of these cases.

112. See *infra* Section III.C.1.b for further discussion of unclear provenance.

113. "While there is no question that the Nazis and their collaborators did engage in inhumane behavior and some appropriately were punished at Nuremberg, there is equally no reason to think that innocent, good faith purchasers, nearly sixty years later, are proper parties to now punish." Stephan J. Schlegelmilch, *Ghosts of the Holocaust: Holocaust Victim Fine Arts Litigation and a Statutory Application of the Discovery Rule*, 50 CASE W. RES. L. REV. 87, 112 (1999).

114. Truman F. Bewley, *Knightian Decision Theory and Econometric Inferences*, 146 J. ECON. THEORY 1134, 1134 (2011).

C. THE LEMONS MARKET AND NAZI-LOOTED ART

This part introduces the Lemons Market and discusses the model in two case studies: the auction house and the museum as intermediaries and art market actors.

As pointed out by George Akerlof in his seminal paper, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*,¹¹⁵ the problem of discerning quality or value is inherent in commerce, and the inability to do so leads to a market failure. The ability to counter misinformation, deceptive perceptions, and information asymmetries is essential for trade to function efficiently. Without countermeasures, such communication failures have economic costs. Akerlof relied on the used car market, a perfect example of information asymmetry, to illustrate a Lemons Market as an example of a market failure.

The car market is characterized by a significant information gap, leading to a substantial price gap between the primary and secondary car markets. When the buyer purchases the car from the manufacturer or a dealership, neither party has superior knowledge of whether it will be a lemon. Akerlof did not need to clearly define what he meant by quality to prove his point.

Art is not a regular commodity as it does not depreciate through wear and tear over time. On the contrary, some artworks become infinitely more valuable with time. Thus, the secondary art market does not operate like other "used" good markets. However, there are certain similarities. For instance, direct purchase from the artist in the primary art market usually eliminates concerns about authenticity, theft, or looting.

The quality of a painting can attach to multiple features and is not necessarily correlated to price. Numerous benchmarks determine the quality of art, including but not limited to ownership and exhibition history (provenance), comparables, the market in general, and the depth of the potential buyer pool. Art historic quality or -value does not necessarily translate to economic value, and many factors influencing quality determination are highly subjective.

For the purpose of this Article, legal title¹¹⁶ will serve as proxy for good quality in applying the Lemons model to the art market. Clouded title¹¹⁷ and no title¹¹⁸ represent inferior or bad quality.

115. George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Q.J. ECON. 488, 495 (1970). See also generally Roger A. McCain, *Markets for Works of Art and "Markets for Lemons,"* in *ECON. POL'Y FOR THE ARTS* 122 (William S. Hendon et al. eds., 1980).

116. Legal title to property includes the full bundle of unrestricted property rights, such as the right to use, consume, hold, exhibit, pledge as collateral, donate, sell, or otherwise dispose of the property. "Clear legal title goes to the heart of the value of art objects and questions of liability." Shindell, *supra* note 15, at 407. Contrary to real estate, there is no public registry of art (although it has been suggested by Burton and Kreder). See generally Bruce W. Burton, *In Search of John Constable's The White Horse: A Case Study in Tortured Provenance and Proposal for a Torrens-Like System of Title Registration for Artwork*, 59 FLA. L. REV. 531, 535-6 (2007); Jennifer Anglim Kreder, *Reconciling Individual and Group Justice With the Need for Repose in Nazi-Looted Art Disputes: Creation of an International Tribunal*, 73 BROOK. L. REV. 155 (2007).

117. The term "clouded title" describes indeterminate or non-traceable provenance. It can be a simple case of missing information or any document, claim, unreleased lien, or encumbrance that might invalidate or impair the title as an indication of looted or stolen art or make the title doubtful.

118. No title is the equivalent of looted or, more generally, stolen art.

Memorialized provenance is the only documented evidence chain involving title transfers customary in the art market. However, while provenance ideally includes relevant title information, it is not synonymous with title.¹¹⁹ It is a listing of ownership, custody, and location of artwork in chronological order from its creation to the present day. Provenance is like a painting's passport in that it records location changes.¹²⁰ Its usefulness in proving ownership is coincidental, while its primal purpose is to present circumstantial, contextual, and historical evidence of the work's creation.

In a Lemons Market, the buyer cannot correctly assess a painting's title through independent research before the purchase, whereas the seller possesses additional information with regard to his ownership or possession. Sellers with legal title have no mechanisms to credibly disclose this fact to buyers, which causes them to hold on to their paintings, while sellers with clouded or no titles sell them to ill-informed buyers. The price set by the uninformed and risk-averse buyer leads to adverse selection by forcing paintings with legal title out of the market, eventually leading to a market collapse. As a result, the quality of paintings as measured by title on the market will be below average.

According to Akerlof, the Lemons Market phenomenon exists in the art market if the buyer cannot independently verify title. The fact that the perception of title risk can be as real as the actual risk,¹²¹ as discussed earlier, suggests that the art market is indeed a Lemon Market. Nazi-looted art is only one example of a title defect, but the many other manifestations are beyond the scope of this Article.¹²²

Contrary to the used car seller, a painting seller does not necessarily have superior information about the painting's quality. Not having made the necessary inquiries when acquiring¹²³ the artwork, he may be unaware that he is not the owner but merely the possessor of Nazi-looted art. The buyer can obtain the necessary provenance information by consulting a looted art database or enlisting an intermediary's experience and expertise.¹²⁴ Information and search costs can make it economically

119. The legal title concept is defined under personal and real property law covering an array of legal and factual questions that determine whether a possessor has attained full legal and equitable ownership against anyone else's interests. See Shindell, *supra* note 15, at n.5.

120. The fact that provenance is based on physical possession shows that it is not identical to ownership or legal title but merely a mechanism that can aid in determining and reconstructing legal title. Complete provenance without any gaps can still hide questions of valid legal title.

121. See TIJHUIS, *supra* note 13. For title, see generally Rebecca Korach Woan, *True Art Ownership*, FINANCIAL ADVISOR (May 3, 2010), <https://www.fa-mag.com/news/true-art-ownership-5414.html> [<https://perma.cc/C84G-637Z>] [<https://web.archive.org/web/20221011015051/https://www.fa-mag.com/news/true-art-ownership-5414.html>].

122. According to the art title insurer ARIS Title Insurance Corporation, Nazi-looted or stolen art in general only represents twenty-five percent of title risks. Seventy-five percent of title risks are "traditional liens and encumbrances (outside the sphere of traditional art industry due diligence)." See ARIS, RISK MANAGEMENT FOR INDIVIDUALS (2016), https://d1hks021254gle.cloudfront.net/wp-content/uploads/sites/9/2017/01/ARIS-Individual-Collectors-Brochure_2017.pdf [<https://perma.cc/L2P8-JZC7>] [https://web.archive.org/web/20221011015446/https://d1hks021254gle.cloudfront.net/wp-content/uploads/sites/9/2017/01/ARIS-Individual-Collectors-Brochure_2017.pdf]. For a list of legal title risks see Shindell, *supra* note 15.

123. Acquisition does not necessarily involve a purchase as possession could have been transferred by exchange, gift, or inheritance, for example.

124. An auction house, dealer, or provenance researcher often acts as an intermediary.

inefficient or practically impossible¹²⁵ for the buyer to distinguish between good and bad quality. In Akerlof's model, information asymmetry is based on experience, whereas in the art market, it is expertise rather than personal experience¹²⁶ that causes an information deficit or asymmetry.

In Akerlof's Lemons Market, the market value reflects average product quality, and different quality cars sell at the same price. The question in this context is whether Nazi-looted art sells at the same price as works with legal title. The aforementioned example of the two Schiele works sold at auction within days of each other is only an illustration; further empirical evidence is needed to verify the assumptions set forth herein. They are simplifications equating quality with clear title and tying price to title.

Absent other examples, *Sitzende mit angezogenem linken Bein (Torso)* (*Seated Woman With Bent Left Leg (Torso)*) and *Stadt am blauen Fluss (Krumau)* (*Town on the Blue River*) show, that at least in this case good and bad quality artworks did not sell at the same price. The market made a clear distinction, and market value did not reflect average product quality.

Akerlof also implicitly assumes no transaction costs to discovering X as the price for an average quality car. However, buyers' and sellers' search efficiency is very low for unique goods like paintings. The seller can provide the information to multiple buyers and price search costs into the purchase price. The buyer does not share his search information, and he does not recoup his search costs via the purchase price.

The searcher does not know the identity of potential buyers or sellers, and according to George J. Stigler, the search cost "must be divided by the fraction of potential buyers (or sellers) in the population which is being searched."¹²⁷ Assuming less than one person in a random selection of a thousand people is a potential buyer, this means that the cost of a personal search for a seller of a Schiele painting, for example, increases more than a thousand-fold per price quotation. The inefficiency of a personal search is a powerful inducement to localize transactions or use a more modern method of identifying potential buyers or sellers. The use of intermediaries such as dealers or auction houses to identify potential buyers and sellers is the art market equivalent of advertising (which can be expensive for works with few potential buyers compared to the advertising medium's circulation).¹²⁸

A further unspoken assumption in Akerlof's model is the presupposition of disparity—the reasonably high risk of the buyer eventually discovering he bought a lemon. Comparable to used cars, artworks carry unforeseen risks that materially affect quality as defined here. They include, but are not limited to, missing or incomplete provenance and risks concealed from buyers through the use of intermediaries and the potential substitution of their reputation and reliability for that of the seller. The personalization of transactions based on trust is a soft approach widespread in the art

125. Factual inability is not limited to buyers but can also apply to sellers.

126. For the distinction between a lemons and a gems setting, see generally Giuseppe Dari-Mattiacci, Sander Onderstal, & Francesco Parisi, *Inverse Adverse Selection: The Market for Gems* 12 (Amsterdam Ctr. L. & Econ., Working Paper No. 2010-04, 2011).

127. George J. Stigler, *The Economics of Information*, 69 J. POL. ECON. 213, 216 (1961).

128. *Id.*

market that mitigates inefficiencies. So is the equilibration of profits in furtherance of a long-term economic relationship.¹²⁹

As noted earlier, verifying provenance information is a complex and intricate process.¹³⁰ Most models differentiate between the information available to both parties in a transaction and information exclusive to one party. The idiosyncrasy in the Nazi-looted art model is that information is not necessarily private. However, it is an unobservable variable to the other party. The temporary uncertainty model has two equally un- or under-informed parties, and the question is who is the better search cost avoider.

An art market intermediary's central function is to establish compatibility between the potential consumers¹³¹ subject characteristics and the object characteristic of the artwork¹³² in its arsenal.¹³³ The intermediary's success depends on experience, art and market knowledge, personality, relationships, and other factors to achieve such compatibility.¹³⁴

1. The Auction House

The following section summarizes three fundamental functions that the auction house as an intermediary fulfills: gatekeeper, transaction cost specialist, and agent. The Article then turns to the specifics of the auction market and Nazi-looted art.

a. The Auction House as Intermediary

The art market intermediary is a key figure in the distribution and information channel between the supplier/seller and the demander/buyer and acts as a gatekeeper.¹³⁵ The auction house decides what information and artworks enter the market. The high-end major auction houses analyzed herein only accept about ten percent of all objects offered for consignment¹³⁶ and apply minimum value

129. Stuart Plattner, *A Most Ingenious Paradox: The Market for Contemporary Fine Art*, 100 AM. ANTHROPOLOGIST 482, 490 (1998).

130. Identifying red-flag names of dealers and collectors who collaborated with the Nazi Regime in the provenance requires art-historical and historical knowledge, and verifying provenance requires access to and knowledge of numerous databases. Even in cases of a complete and unbroken provenance chain, knowledge and expertise in various legal systems can be required to ascertain whether the current possessor has title to the artwork. Based on these complexities and the high information and search costs, it is inefficient for both the seller and the buyer to obtain and verify provenance information.

131. The intermediary (auction house, gallery, dealer) influences the demander through exhibitions, consultation, and marketing.

132. The intermediary can only influence this in the primary market by guiding the artist and his work through negotiations and price setting.

133. MANUELA LANDWEHR, *KUNST UND ÖKONOMISCHE THEORIE [ART AND ECONOMIC THEORY]* 277–78 (1998).

134. *Id.* at 278.

135. Kurt Lewin introduced the gatekeeper concept in connection with his channel theory for food chain supply and it has since been applied to other socio-economic channels where goods, information, and persons circulate. KURT LEWIN, *FIELD THEORY IN SOCIAL SCIENCE: SELECTED THEORETICAL PAPERS* 176 (Dorwin Cartwright ed., 1951).

136. Simmons, *supra* note 106.

thresholds.¹³⁷ It is difficult or impossible for unknown consignors to place works as most high-end auction houses deal almost exclusively with existing clients or solicited consignors.¹³⁸ The auction house intermediaries are homogenous; access to specific artwork or information is limited if the gatekeeper does not open the gate. A buyer buying a painting at a well-known gallery or auction house purchases the physical object and intangible assets such as reputational value based on his association with the intermediary.

The art market transmits information via an insider information network, causing high search and information costs for outsiders such as potential buyers, sellers, and even artists. To remain competitive, intermediaries must add value to the transaction by lowering transaction costs or adding utility. To maximize their utility, intermediaries are efficient and experts in reducing transaction costs. Intermediaries minimize direct contact between the upstream and downstream market actors and the cost per contact. According to the Baligh-Richartz effect,¹³⁹ a single intermediary significantly reduces the requisite number of contacts between buyers and sellers. For example, a gallery representing five artists is in contact with five potential buyers. Without the gallery, twenty-five (five times five) individual contacts are required if each potential buyer contacts every artist before his purchase decision. With the gallery as an intermediary, only ten (five plus five) contacts are necessary since the potential buyer can view all artists' works at the gallery. The potential buyer does not have to travel to each artist's or seller's home at the auction house, and standard consignment and purchase agreements reduce contractual costs.

Intermediaries also mitigate counterparties' uncertainty routed in ignorance and asymmetrical information. A buyer's uncertainty regarding the authenticity and quality of a painting influences the investment decision. The low transaction frequency in the art market makes it inefficient for the buyer or the seller to reduce uncertainty by obtaining the necessary information. The expense of search costs in terms of time, money, and effort is too high. Having the intermediary, such as a gallery or an auction house, vet and approve the work allows the buyer to overcome his ignorance and uncertainty (assuming he has sufficient trust in the intermediary's judgment).¹⁴⁰ Intermediaries act as information centers with their expertise and a high volume of transactions. They can realize economies of scope¹⁴¹ and scale¹⁴² based on the availability and repeated use of information from prior research and expertise.

Based on the intermediaries' information advantage, the buyer or seller is required to involve an intermediary. However, the information advantage itself induces further information asymmetry. Uncertainty about the quality and characteristics of the intermediary replaces market data uncertainty, making the intermediary market a Lemon Market. The principal cannot observe and properly assess behavioral

137. *Id.* (stating the minimum value is around \$5,000).

138. *Id.*

139. See Helmy H. Baligh & Leon E. Richartz, *An Analysis of Vertical Market Structures*, 10 MGMT. SCI. 667, 670 (1964).

140. McCain, *supra* note 115, at 130–135; LANDWEHR, *supra* note 133, at 286.

141. Economies of scope lower the average cost of a product by producing more types of products.

142. Economies of scale reduce the cost per unit by increasing the number of units produced.

uncertainty before the transaction. Hidden information such as quality uncertainty (leading to adverse selection) and hidden action such as moral hazard are components of this uncertainty.

The buyer of the intermediary's services cannot observe whether the intermediary possesses the necessary quality and price information to prevent a bad purchase. He cannot assess ex-ante whether the intermediary will recognize a forgery or a painting as an unsuitable investment object.¹⁴³ The principal uses the intermediary agent precisely because of his superior insider information. However, the principal has no way of ensuring that the agent uses this information to maximize the principal's utility.¹⁴⁴

The intermediary as the agent is not the ultimate risk-bearer, which affects his choices and behavior, leading to moral hazard. Risk mitigation efforts can lead to perverse incentives, inducing the agent to act carelessly.¹⁴⁵ The agent intermediary's search and brokering activities are non-observable. The principal cannot assess whether results are based on agent conduct or exogenous risk. Best efforts and bad luck can produce the same results as poor efforts and good luck.¹⁴⁶ The seller's use of an intermediary combines "two inextricable elements, risk-sharing and differential information."¹⁴⁷

A competitive market incentivizes the intermediary to reduce agent-related information asymmetry to survive.¹⁴⁸ Signaling, self-regulating, screening, and attaining and maintaining trust and reputation curtail agent-related information asymmetry. These are the same evasive avoidance tactics that the sellers of average or above-average used cars in Akerlof's Lemon Market use. Intermediaries have additional means to *signal* their efficiency. They must relay credible information that allows the principal to draw reliable conclusions about the intermediary's non-observable characteristics, such as expertise and competence.¹⁴⁹ The economic agent uses observable actions to assure the principal of the quality and value of his intermediary services.¹⁵⁰

The information insider network and the intermediaries' homogeneity cause screening to play a negligible role in the art market as an uncertainty reduction tool. Trust and reputation are the most important measures to reduce uncertainty in the art market. The insider information network and long-term relationships curtail opportunistic behavior. The opportunity loss incurred by consistent reliability, goodwill, and fairness only pays off if the intermediary maintains its position in the

143. LANDWEHR, *supra* note 133, at 291.

144. KENNETH JOSEPH ARROW, *THE ECONOMICS OF AGENCY* 1, 5 (Stan. Univ. Ctr. of Rsch. on Org. Efficiency ed., 1984).

145. *Id.* at 4.

146. Klaus Spremann, *Reputation, Garantie, Information*, 58 *ZEITSCHRIFT FÜR BETRIEBSWIRTSCHAFT* 613, 615 (1988).

147. ARROW, *supra* note 144, at 13.

148. *Id.*

149. See generally Michael A. Spence, *Job Market Signaling*, 87 *Q.J. ECON.* 355-74 (1973).

150. Karl-Gustaf Löfgren, et al., *Markets with Asymmetric Information: The Contributions of George Akerlof, Michael Spence and Joseph Stiglitz*, 104 *SCANDINAVIAN J. ECON.* 195, 199 (2002).

market long-term and can reap the economic fruits of the established reputation.¹⁵¹ In Hohfeld's bifurcated system of opposites, incentives require the possibility of punishment as a backstop to be effective. The punishment's goal is to diminish the agent's utility so severely that the mere threat induces the agent to choose a sufficiently high level of effort and diligence out of self-interest.¹⁵² The agent needs to possess something of worth, which the punishment can destroy. Reputation acts as collateral for the demander, forcing the intermediary to behave diligently since the principal can otherwise destroy the collateral.¹⁵³ As an auction house lawyer testified in a deposition in connection with the sale and reimbursement of a forged Frans Hals painting, "[i]t is a question of reputation that has a much broader impact than the value of this one painting."¹⁵⁴

b. The Auction House and Nazi-looted Art

As the seller's intermediary, the auction house mitigates information deficits. Best practices and standards for Nazi-looted art have evolved, and due diligence procedures at major auction houses have improved over the past decades.¹⁵⁵ Only time will tell if this is a race to the top, with smaller and local auction houses following suit and adhering to similarly strict standards. Unfortunately, the other outcome is a race to the bottom. If works of questionable provenance are offered through auction houses with low standards, works are pushed underground, making it more difficult for owners and heirs to locate them.

Auction houses are well-positioned to request comprehensive provenance information from the potential seller or consignor. Prominent houses have well-educated, trained staff to verify such information and conduct independent research. In addition to utilizing existing databases, these intermediaries maintain valuable proprietary in-house databases.¹⁵⁶ The auction house conducts independent research

151. LANDWEHR, *supra* note 133, at 296.

152. Spremann, *supra* note 146, at 619.

153. The collateral's function in this scenario is not to improve the principal's position. Its sole purpose is to possibly be destroyed to penalize the agent. *Id.*

154. Jonathan Browning, *Sotheby's Drags Christie's into Fight Over Fake Old Master*, BLOOMBERG (Oct. 25, 2018, 9:51 AM), <https://www.bloomberg.com/news/articles/2018-10-25/sotheby-s-drags-rival-christie-s-into-fight-over-fake-old-master> [<https://perma.cc/7DWU-XJJM>] [<https://web.archive.org/web/20221027222209/https://www.bloomberg.com/news/articles/2018-10-25/sotheby-s-drags-rival-christie-s-into-fight-over-fake-old-master>].

155. See Walton, *supra* note 30, at 569 (giving examples of Sotheby's stating that a work indeed had been stolen by the Nazis, and that it had even been listed in the official "Catalog of French Property Stolen between 1939–1945" published by the French government and the Carnegie Museum of Art in Pittsburgh removing a work from viewing as both sides attempted to show provenance records claiming rightful ownership).

156. "It should be noted that numerous databases today are restricted from public access. Some companies (e.g., Sotheby's auction house) have created their own databases which are used for the tracing of 'questionable' art works, but these are not accessible to the public because they contain sensitive information. Some governments, such as the French, do not permit public access to their databases of looted art for various legal reasons (most commonly, protection of privacy of claimants)." Konstantin Akinsha, *The Temptation of the "Total" Database*, in RESOLUTION OF CULTURAL PROPERTY DISPUTES 159–161 (Int'l Bureau of the Permanent Ct. of Arbitration ed., 2003).

by using institutional knowledge and consulting archives and other sources. While previous sales information is important, it can be inaccurate and is often disregarded. The time spent checking databases and conducting provenance research depends on several factors, including the consignor's identity and importance, the work's appeal to the auction house, and the auction cycle timing.

One of two requirements must be met for the artwork to be cleared and put up for sale. Either the provenance has been fully reconstructed, and the consignor has title, or there is no indication suggesting that the painting was looted. The decision to include it in a sale is case-specific, and the fact that the artwork was the object of a lawsuit is not necessarily determinative.¹⁵⁷ On the other hand, the auction house may decline the consignment if the research uncovered potential issues. Legal considerations are not the only factor—the saleability of the work, public relations exposure, and ethical concerns also affect the decision.¹⁵⁸

Nazi-looted art can be uncovered in one of two ways. First, the consignor's documentation could contain relevant information. This is a case of asymmetric information as the consignor likely knows that the work was looted. Alternatively, in the case of temporary uncertainty, provenance research uncovers that the work was looted. Once this has been established, the next steps depend on whether there is a known claim for the work.

In the case of a known claim, the auction house will not return the work to the consignor and retains the work until the consignor and the claimant reach an agreement. According to an auction house representative, the resolution rate for valid claims is very high.¹⁵⁹ When the conflicting parties cannot reach a resolution, the auction house may be holding a work—and paying for its insurance and storage fees—for a long time.¹⁶⁰ A claimant may also contact the auction house once a lot is put up for sale if his information is not previously available to the auction house.¹⁶¹ It is not uncommon for claims to relate to prior auction sales from the 1980s and 1990s. The auction house will contact the consignor and buyer on behalf of the claimant to facilitate a resolution. If a claim is made shortly before a lot is auctioned or following its sale, the auction house holds the sale's proceeds until the consignor and the claimant reach a resolution—exposing the auction house to potential lawsuits by the consignor.

If there is no known claimant, practices differ. One auction house does not offer the Nazi-looted artwork for sale and returns it to the consignor.¹⁶² While this keeps the looted work off the auction block, nothing prevents the consignor from selling it through a different channel. The auction house also falls short of its gatekeeper function

157. Simmons, *supra* note 106.

158. *Id.*

159. The resolution rate for valid claims at one auction house is around ninety percent, and a restitution agreement often attracts a premium once the work is put up for sale. *Id.*

160. Where appropriate, the auction house may file an interpleader to get the competing claims resolved. Maggie Hoag, Deputy General Counsel, Americas at Christie's, Panel at Cardozo Law School's Symposium: From Consignment to the Auction Block (Mar. 25, 2019), <https://larc.cardozo.yu.edu/cgi/viewcontent.cgi?article=1058&context=flyers-2018-2019> [<https://web.archive.org/web/20221101132042/https://larc.cardozo.yu.edu/cgi/viewcontent.cgi?article=1058&context=flyers-2018-2019>].

161. Simmons, *supra* note 106.

162. *Id.*

since the compiled provenance information is not disseminated to the wider market. Another auction house outlines a different procedure in its guidelines which includes considering alternatives with the consignor, such as donating the work to a museum or “offering the object for sale publicly with sufficient publicity to record its (intended or actual) sale and allow potential claimants to come forward.”¹⁶³ If the auction house is not satisfied and cannot get comfortable based on the provided information and its independent research in time for a scheduled sale, it rejects the work and returns it to the consignor. Alternatively, the work can be included in a later sale after additional research.

For asymmetric information, the intermediary, through its search and information-accumulation function, prevents the auction market from being a Lemon Market in two ways. First, if the research determines that the artwork was looted or likely looted, the auction house does not sell it (or sells it with sufficient publicity to alert buyers of the issue). It acts as a gatekeeper and eliminates bad quality (artworks without title) from the auction market. Some intermediaries contact the potential claimant (the prewar owner or heirs) whenever possible.¹⁶⁴ Secondly, if the auction house determines that the artwork is of average or good quality (a possible restitution issue has been decided by a court,¹⁶⁵ or the work has clean and marketable title), its findings are published in the catalogue and other pre-sale advertisements. It allows the buyer to verify the information that is inefficient for them to search on their own. The auction house eliminates information asymmetry and thereby prevents adverse selection.

Despite these results, the examined system of returning Nazi-looted art to the consignor absent a known claim or returning the artwork in cases of ambiguity has three shortcomings:

- (1) Resolving the temporary uncertainty creates asymmetric information and the potential for a Lemon Market at a lower level or private deal.
- (2) The compiled provenance information remains siloed, undisclosed, and unknown to potential buyers and claimants.
- (3) The auction house is not compensated for its search costs and does not monetize its research efforts and results.

The auction house typically has a contractual relationship based on agency law with the seller in the form of a consignment agreement. However, where the validity of title is concerned, its economic interest aligns with that of the purchaser. The research conducted by the auction house is entirely incidental to its main purpose, which is selling. There is no reimbursement mechanism to recover the incurred research costs (when the work is returned to the consignor) or the costs of holding a disputed work.

163. *Christie's Guidelines for Dealing with Nazi-era Art Restitution Issues*, CHRISTIE'S (June 2009), <https://www.christies.com/pdf/services/2010/christies-guidelines-for-dealing-with-restitution-issues.pdf> [<https://perma.cc/7WKR-QTKD>] [<https://web.archive.org/web/20221014220802/https://www.christies.com/pdf/services/2010/christies-guidelines-for-dealing-with-restitution-issues.pdf>] (The guidelines mention a public list of such objects which the author has not been able to locate. It is not clear that such a list exists.).

164. *Id.*

165. See the example of the Schiele work *Seated Woman with Bent Left Leg* discussed *supra* at Part I.C.

These sunk costs are only monetized via the reputation and brand protection that the auction house maintains by only selling works with legal title.

These shortcomings result in inefficiencies further discussed in *Part III*, where the HEAR Fund is introduced as a solution to these inefficiencies.

2. The Museum

This section discusses the donor-museum relationship, which more closely resembles the seller-buyer relationship in Akerlof's model than the intermediated auction relationship. It discusses several voluntary and enforcement disclosure mechanisms before examining donations of Nazi-looted art to museums.

a. Disclosure Mechanisms

Markets with information asymmetry and deficiency are prone to fraud. Efficient resource allocation requires accurate and optimal information. Incentives for voluntary disclosure by the market can optimize information availability. Enforcement of civil and criminal prohibitions against fraud and specialized bodies to oversee regulations can compel disclosure.

Frank H. Easterbrook and Daniel R. Fischel¹⁶⁶ analyzed the efficiency of securities regulation by modeling the market without regulatory intervention and concluded that mandatory disclosure has its merits.¹⁶⁷ They found that sellers of high-quality products have several options and incentives to counter the buyer's Lemons assumption. Sellers can identify themselves through *self-induced voluntary disclosure* and obtain X + Y if the buyer can verify the information. The self-interest model, however, does not eliminate the buyers' duplicative inspection efforts, and low-quality sellers can mimic the disclosure of ascertainable facts while making bogus statements about matters that the buyers cannot verify.

The information playing field can also be leveled by allowing a *third party to review* and certify the presented information's accuracy. Another method suggested by Easterbrook and Fischel is having *skin in the game*. However, warranting information by making *legally enforceable promises* such as warranties and guarantees has a greater impact. Enforced informational warranties eliminate search and verification costs for buyers and certification costs for sellers. Such promises are not a true market mechanism, but a hybrid backed by legislative and executive measures.

Douglas Skinner¹⁶⁸ conducted an empirical analysis of voluntary disclosure practices of ninety-three exchange-listed firms and found a low overall disclosure frequency.¹⁶⁹ Firms frequently disclosed negative news linked to the "asymmetric loss function due

166. See generally, Frank H. Easterbrook & Daniel R. Fischel, *Mandatory Disclosure and the Protection of Investors*, 70 VA. L. REV. 669 (1984).

167. The SEC's "routinization of disclosure reduces the number of paths to the marketplace" and it might not be the best or only game in town. *Id.* at 671.

168. Douglas J. Skinner, *Why Firms Voluntarily Disclose Bad News*, 32 J. ACCT. RSCH. 38 (1994).

169. *Id.*

to legal liability.¹⁷⁰ Voluntary disclosure of bad news is driven by the firm's motivation to get ahead of the wave and avoid or limit large drops in stock price on the earnings announcement dates and the potential of shareholder suits accompanying such a decline.¹⁷¹

A firm's disclosure affects two very different audiences: its stockholders and its competitors. Therefore, the motivation for voluntary disclosure differs for positive and negative news. The firm voluntarily discloses positive news to distinguish itself from its competitors and positively impact its share price.¹⁷² It voluntarily discloses negative news to preempt legal liability and reputational costs.¹⁷³

The market's unspoken inference that silence must indicate bad news¹⁷⁴ assumes a disclosure culture and expectancy level based on experience justifying the inference.¹⁷⁵ Transactions in the art market remain routed in the customs and traditions of the seventeenth century. Disclosure practices and expectations are changing based on the art market's increasing commodification and financialization. However, confidentiality concerns continue to prevail.

John C. Coffee points out that "information has many characteristics of a public good,"¹⁷⁶ which typically means that it is underprovided. In his view, a mandatory disclosure system improves allocative efficiency. As discussed, provenance research has a high financial and temporal expenditure cost. Once the information is disclosed and shared, free riders can enjoy its benefits without contributing to its discovery. It is also impossible to easily verify the information's credibility and accuracy, and unscrupulous disclosers may pass bad information as good information.¹⁷⁷

The concept of self-regulation has come under attack in the for-profit sector following massive environmental and financial failures in the aftermath of self-

170. *Id.* at 57.

171. *Id.* at 39–42. The majority of 10b-5 cases occur after a firm announces missed earnings on a mandatory disclosure date. Early disclosure of bad news makes it more difficult for shareholders to argue that information was withheld and also limits damages.

172. *Id.* at 58.

173. *Id.* at 39, 58.

174. Robert E. Verrecchia, *Discretionary Disclosure*, 5 J. ACCT. & ECON. 179, 192 (1983).

175. Skinner, *supra* note 168, at 43. *See also* Verrecchia, *supra* note 174, at 192 (linking the disclosure of news to a constant proprietary cost of disclosure) ("An equilibrium threshold level of disclosure is a point below which a manager's motivation to withhold information is consistent with traders' conjecture as to how to interpret that action.")

176. John C. Coffee Jr., *Market Failure and the Economic Case for a Mandatory Disclosure System*, 70 VA. L. REV. 717, 722 (1984).

177. Brealey, *supra* note 88, at 383 (explaining that this leads to a lemons market). *See also* Löfgren et al., *supra* note 150, at 199.

regulation.¹⁷⁸ Successful self-regulation¹⁷⁹ requires a strong government position and consensus¹⁸⁰ on behavior standards. Indirect governmental involvement requires strong demand (and threat) of governmental action¹⁸¹ and sufficient governmental resources (and interest) to monitor compliance with the self-regulation guidelines and sanction violations.¹⁸²

Outside pressure also plays an important role, and some argue that self-regulation aiming to achieve a public goal—here, the voluntary disclosure of information—works best (or only works) in combination with a robust regulatory regime.¹⁸³ Self-regulatory efforts created in a regulatory void, often to maintain that void, are usually unsuccessful.¹⁸⁴ They typically do not go beyond “window-dressing” and are merely cosmetic, deflect criticism, or ingratiate certain stakeholders.¹⁸⁵

James Wilson explored how the New England fresh fish market deals with uncertainty.¹⁸⁶ The traders face quality uncertainty and small numbers bargaining problems, comparable to the relatively inaccurate and slow dissemination of information in the art market. Fresh fish transactions are missing three important pieces of information unknown to one or both parties when making the deal. Current market prices, applicable product quality standards, and the daily catch’s actual quality are unknowable until the fish is offloaded and inspected.¹⁸⁷ Similar uncertainty exists

178. Then SEC Chairman Christopher Cox changed his tune when he announced that “[t]he last six months have made it abundantly clear that voluntary regulation does not work.” Press Release, SEC, Chairman Cox Announces End of Consolidated Supervised Entities Program (Sept. 26, 2008), <https://www.sec.gov/news/press/2008/2008-230.htm> [<https://perma.cc/LK32-J7LZ>] [<https://web.archive.org/save/https://www.sec.gov/news/press/2008/2008-230.htm>]. See also generally EDWARD I. BALLEISEN, *THE PROSPECTS FOR EFFECTIVE COREGULATION IN THE UNITED STATES: A HISTORIAN'S VIEW FROM THE EARLY TWENTY-FIRST CENTURY* (2009).

179. See generally Jodi L. Short & Michael W. Toffel, *Coerced Confessions: Self-Policing in the Shadow of the Regulator*, 24 J. L. ECON. & ORG. 45 (2007) and Jodi L. Short & Michael W. Toffel, *Making Self-Regulation More than Merely Symbolic: The Critical Role of the Legal Environment*, 55 ADMIN. SCI. Q. 361 (2010).

180. See generally CRIME IN THE ART AND ANTIQUITIES WORLD: ILLEGAL TRAFFICKING IN CULTURAL PROPERTY 11 (Stefano Manacorda & Duncan Chappell eds., 2011) for the lack of consensus.

181. The American Alliance of Museums, for example, adopted its AAM Code of Ethics for Museums in response to a proposal by the Financial Accounting Standards Board to require museums to include their collections at fair market value in their financial statements. *AAM Code of Ethics for Museums*, AMERICAN ALLIANCE OF MUSEUMS, <https://www.aam-us.org/programs/ethics-standards-and-professional-practices/code-of-ethics-for-museums> [<https://perma.cc/9AZH-JKYD>] [<https://web.archive.org/web/20221021205217/https://www.aam-us.org/programs/ethics-standards-and-professional-practices/code-of-ethics-for-museums>] (last visited Nov. 1, 2022). See Mark S. Gold, *Monetizing the Collection: The Intersection of Law, Ethics, and Trustee Prerogative*, in *THE LEGAL GUIDE FOR MUSEUM PROFESSIONALS* 127 (Julia Courtney ed., 2015). See generally Erin Thompson, *Successes and Failures of Self-Regulatory Regimes Governing Museum Holdings of Nazi-Looted Art and Looted Antiques*, 37 COLUM. J.L. & ARTS 379 (2013).

182. See Jodi L. Short, *Self-Regulation in the Regulatory Void: “Blue Moon” or “Bad Moon”?*, 649 ANNALS AM. ACAD. POL. & SOC. SCI. 22, 24 (2013).

183. *Id.* at 31.

184. *Id.* at 24.

185. See John W. Meyer & Brian Rowan, *Institutionalized Organizations: Formal Structure as Myth and Ceremony*, 83 AM. J. SOCIO. 340 (1977).

186. James A. Wilson, *Adaptation to Uncertainty and Small Numbers Exchange: The New England Fresh Fish Market*, 11 BELL J. ECON. 491 (1980).

187. *Id.* at 493.

for Nazi-looted art or Covered Objects with missing provenance information and potential claims.

The solution to possible inequities and inefficiencies in the fish market is a highly personal, long-term, consumer solution in the form of bilateral agreements with reciprocation over time.¹⁸⁸ Accounts are adjusted to reflect new information concerning past transactions, requiring an ongoing relationship with multiple transactions. In the art market, transaction frequency is not high enough to enable a reciprocal adjustment over time, even if a museum has a long-term relationship with a donor. The museum also cannot offset a loss from the restitution of Nazi-looted art against a later donation and accompanying charitable tax deduction by the donor.

According to Phillip Nelson, information can be obtained through experience or expertise.¹⁸⁹ Consumers gather price or quality information through search.¹⁹⁰ Search is limited by the ceiling of maximized expected utility and is abandoned once the marginal expected cost of search exceeds its marginal expected return.¹⁹¹ Search through expertise—provenance research—is cost- and labor-intensive. Obtaining information through experience can maximize utility¹⁹²—acquiring Nazi-looted art or a Covered Object and risking a later claim. Limited enforcement weakens claims.¹⁹³ The experience approach applies, in particular, to less expensive artworks where search is inappropriate. The consumer evaluates the quality by purchasing the work or accepting the donation in the case of the museum. Information through experience is less likely in the museum-donor context based on the assumption that museum-quality work typically is of substantial value, but the concept nevertheless applies.

The museum-donor relationship is comparable to the bazaar economy explored by Clifford Geertz.¹⁹⁴ Both are “walled, ethnically heterogeneous, and quite traditional.”¹⁹⁵ Discussing the Sefrou Bazaar, Geertz might as well be describing the art market when he says, “information is poor, scarce, maldistributed, inefficiently communicated, and intensely valued.”¹⁹⁶ The two most essential tools in information gathering in the peasant marketing system are *clientelization* and bargaining. Donors and museums establish continuing relationships based on mutual trust to counteract information deficiencies. Similar to the bazaar economy, “the possibilities for bargaining along non-

188. *Id.* at 491. Wilson points out that product quality tends to fall to the lowest acceptable level.

189. See Phillip Nelson, *Information and Consumer Behavior*, 78 J. POL. ECON. 311 (1970). Nelson’s definition of search differs and is slightly narrower than Stigler’s definition. It is limited to the utility evaluation of each option. See generally Stigler, *supra* note 127.

190. See *id.*

191. Nelson, *supra* note 189, at 313.

192. “For tuna fish there is no effective search alternative open. At the low price of experience, there is insufficient demand for specialized establishments selling tastes of various brands of tuna fish.” See *id.* at 312.

193. Despite strong protection of ownership rights under U.S. law, claimants in litigation often face the defenses of statute of limitations and laches. The potential outcome in court influences private negotiations or other resolution attempts as well.

194. Clifford Geertz, *The Bazaar Economy: Information and Search in Peasant Marketing*, 68 AM. ECON. REV. 28 (1978).

195. *Id.* at 28.

196. See *id.* at 29.

monetary dimensions,¹⁹⁷ like restrictions on the donation or naming rights, are of enormous importance in the donor-museum relationship.

b. The Museum and Nazi-looted Art

Why do collectors donate paintings to museums instead of maximizing their utility and economic profit through a sale? Aside from receiving a tax deduction, a collector's donating instead of selling forgoes economic profits and advancing his private economy. However, he rationalizes his decision by affirming his identity as the owner of a Veblen good advancing public cultural heritage¹⁹⁸ and his social and cultural standing in the community. The public display of one's name on a museum wing¹⁹⁹ may be more gratifying than monetary compensation or ownership. However, provenance gaps or unsellable works add another motivational layer.

For example, Donor A has limited information about a painting she inherited. The only paperwork she has shows that her father purchased the painting around 1978 from a gallery in New York and does not list previous owners. Donor A knows that in 1978 the gallery told her father it had purchased the painting at an auction in Switzerland in 1943, but the gallery had no records. She keeps this information private and obtains an insurance appraisal to sell the painting. The auction house rejects the consignment because its provenance research cannot determine the painting's prior ownership. Donor A decides to donate the work to the Metropolitan Museum of Art (Met) and take a charitable deduction.

According to Article III of its Constitution, the Met's trustees manage, preserve, and protect the Met's property and have exclusive power to manage and conduct the museum's affairs.²⁰⁰ Trustees are subject to the duty of care,²⁰¹ the duty of loyalty,²⁰² and the duty of obedience.²⁰³ They accept or decline gifts or bequests under the Met's Collection Management Policy (CMP).²⁰⁴ The CMP contains provenance guidelines

197. *See id.* at 31.

198. Plattner, *supra* note 129, at 484.

199. For naming rights, *see* Linda Sugin, *Competitive Philanthropy: Charitable Naming Rights, Inequality, and Social Norms*, 79 OHIO ST. L.J. 121 (2018).

200. METROPOLITAN MUSEUM OF ART, CHARTER, CONSTITUTION, BY-LAWS 8–10 (1963).

201. N.Y. NOT-FOR-PROFIT CORP. LAW § 717 (McKinney 2015). The duty of care requires trustees or directors of a not-for-profit corporation to discharge the duties of their positions in good faith, with the degree of diligence, care, and skill that an ordinarily prudent person would exercise under similar circumstances in like positions.

202. *Id.* at §§ 715–716 and case law.

203. *See* *Manhattan Eye, Ear & Throat Hospital v. Spitzer*, 186 Misc. 2d. 126, 152 (NY Sup. Ct. 1999) (“It is axiomatic that the Board of Directors is charged with the duty to ensure that the mission of the charitable corporation is carried out. This duty has been referred to as the ‘duty of obedience.’”). The duty of obedience requires the trustees to be true to the organization's mission and to ensure that their actions do not violate federal, state, or local laws and regulations.

204. *Collection Management Policy of the Metropolitan Museum of Art*, METROPOLITAN MUSEUM OF ART (Sept. 13, 2022), <https://www.metmuseum.org/about-the-met/policies-and-documents/collections-management-policy> [<https://perma.cc/MN54-X5MZ>] [<https://web.archive.org/web/20221018171336/https://www.metmuseum.org/-/media/files/about-the-met/policies-and-documents/collections-management-policy/Collections-Management-Policy.pdf>].

for acquisitions, including donations, and specific guidelines for “works that were likely to have been in German-occupied Europe between 1933 and 1945.”²⁰⁵

The Met conducts research “prudent or necessary to resolve the Nazi-era provenance of the work.”²⁰⁶ Like the auction house, the Met cannot independently verify whether the painting was looted, regardless of Donor A’s honesty or dishonesty. However, based on the CMP, the Met “in the absence of evidence of unlawful appropriation” may accept the donation.²⁰⁷ It remains to be seen whether a 2022 New York law²⁰⁸ requiring museums to label any art looted during the Holocaust prominently will lead to changes in the Met’s CMP.

The Internal Revenue Service (IRS) requires a qualified appraisal²⁰⁹ for a charitable deduction.²¹⁰ IRS Publication 561 provides guidance on the appraisal and the determination of fair market value.²¹¹ Appraisal organizations and the IRS adopted Uniform Standards of Professional Appraisal Practice (USPAP) standards to align the appraiser’s responsibilities with those of a title abstractor. USPAP standards are the mandated standard set by the IRS for the appraisal of tangible personal property.²¹²

Contrary to the Met’s CMP, IRS guidelines do not address Nazi-looted art and Covered Objects. While a painting without legal title is worth nothing, USPAP valuations are based on two decisive assumptions: clear legal title and authenticity. Appraisers do not and cannot²¹³ independently investigate or verify legal title.²¹⁴ Appraisers need to explicitly identify the “extraordinary assumptions” and “hypothetical

205. *Id.* at § IV.E.2.

206. *Id.* at § IV.E.2a.

207. *Id.*

208. 2022 N.Y. Sess. Laws Ch. 491 (A. 3719-A) (An act to amend the education law, in relation to notice of art stolen during the Nazi era in Europe).

209. *See* The Pension Protection Act of 2006 (PPA), Pub. L. No. 109-280, § 170(f)(11)(E), 120 Stat. 780, 1085, which codified the definition of a qualified appraiser and what it means to have a qualified appraisal.

210. 26 U.S.C. § 170.

211. *Publication 561: Determining the Value of Donated Property*, IRS (Jan. 19, 2022), <https://www.irs.gov/pub/irs-pdf/p561.pdf> [<https://perma.cc/6AJG-8XA5>] [<https://web.archive.org/web/20221009162355/https://www.irs.gov/pub/irs-pdf/p561.pdf>], and *Publication 526: Charitable Contributions*, IRS (Feb. 24, 2022), <https://www.irs.gov/pub/irs-pdf/p526.pdf> [<https://perma.cc/5UVC-EURR>] [<https://web.archive.org/web/20220930231601/https://www.irs.gov/pub/irs-pdf/p526.pdf>]. *See generally* Ronald D. Spencer, *Trouble Valuing Donated Art for Tax Purposes*, 1 No. 3 SPENCER’S ART L. J. (2010), <http://www.artnet.com/magazineus/news/spencer/spencers-art-law-journal-2-16-11.asp> [<https://perma.cc/F3LE-4P3S>] [<https://web.archive.org/web/20221028161809/http://www.artnet.com/magazineus/news/spencer/spencers-art-law-journal-2-16-11.asp>].

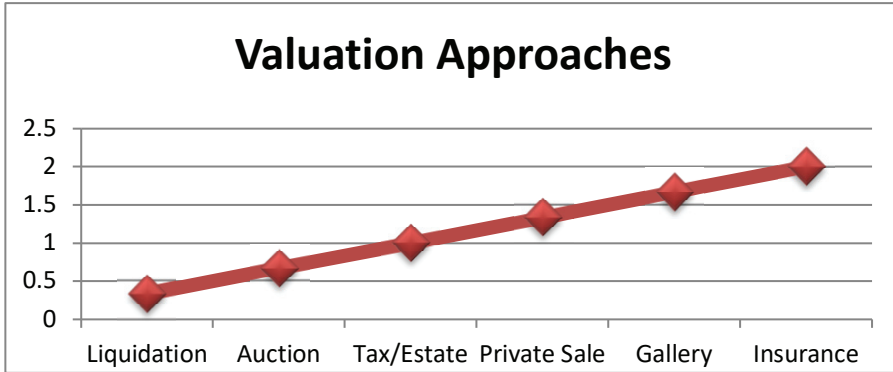
212. *What is USPAP?*, THE APPRAISAL FOUND., https://www.appraisalfoundation.org/imis/TAF/Standards/Appraisal_Standards/Uniform_Standards_of_Professional_Appraisal_Practice/TAF/USPAP.aspx?hkey=a6420a67-dbfa-41b3-9878-fac35923d2af [<https://perma.cc/78UL-TSCJ>] [https://web.archive.org/save/https://www.appraisalfoundation.org/imis/TAF/Standards/Appraisal_Standards/Uniform_Standards_of_Professional_Appraisal_Practice/TAF/USPAP.aspx?hkey=a6420a67-dbfa-41b3-9878-fac35923d2af].

213. Most professional indemnity insurance policies will not permit an appraiser to render an opinion on legal title, *see* Larry Shindell and Filippo Petteni, *In the Frames*, STEP J. (Dec. 1, 2013), <https://www.step.org/step-journal/step-journal-decjan-2013-14/frame> [<https://perma.cc/F2R5-P7BR>] [<https://web.archive.org/web/20221028162413/https://www.step.org/step-journal/step-journal-decjan-2013-14/frame>].

214. *See* Korach Wonan, *supra* note 121.

conditions” on which they based the value. It is irrational to expect appraisers to do more than react to red flags.²¹⁵

Valuation approaches vary based on the underlying market assumptions. Longer marketing periods typically correlate with a higher valuation. The general hierarchy is liquidation, auction, tax/estate, private sale, gallery, and insurance. Insurance valuations are the highest valuations, typically at one to two times fair market value.



Therefore, assuming legal title, the appraiser will issue an appraisal of the painting valued at $X + Y =$ fair market value, represented by “1” on the y-axis in the graph above. Absent a dispute with the IRS, Donor A will receive a charitable deduction based on the Painting’s fair market value of $X + Y$.

According to Akerlof, consumers rationally respond by discounting all goods when they cannot distinguish between high-quality and low-quality goods.²¹⁶ This, however, is not the case in the current scenario. The Met’s CMP, absent clear evidence to the contrary, does not discount works with provenance gaps compared to a fully provenanced work with clear and clean title. Should the donated painting become subject to a claim later, the museum suffers a loss to its collection or a financial loss.²¹⁷

The second cost of dishonesty is that legitimate businesses or sellers of high-quality goods are driven out of existence. While anecdotal evidence suggests that problematic

215. For details on the appraisal process, see Judith L. Pearson, *Establishing Clear Title to Works of Art*, WEALTHMANAGEMENT.COM (Mar. 25, 2015), <https://www.wealthmanagement.com/art-auctions-antiques-report/establishing-clear-title-works-art> [<https://perma.cc/9ZAK-XPLL>] [<https://web.archive.org/web/20221014003535/https://www.wealthmanagement.com/art-auctions-antiques-report/establishing-clear-title-works-art>]. Based on the limitations of provenance set forth above and the frequent lack of transactional documentation and gaps in information, an appraiser cannot certify a provenance in a way an abstractor of real estate would be able to verify title.

216. Akerlof, *supra* note 115, at 495.

217. See Press Release, Met Museum, *Settlement Reached on Monet’s Garden at Argenteuil* (Aug. 22, 2001), <https://www.metmuseum.org/press/news/2001/argenteuil-settlement> [<https://perma.cc/CB9T-3MEW>] [<https://web.archive.org/web/20221014003819/https://www.metmuseum.org/press/news/2001/argenteuil-settlement>].

works may be overrepresented in the donation market, there is no evidence that fully provenanced works with clear and clean title are not being donated.²¹⁸

In the donor-museum scenario, asymmetrical information does not lead to buyer uncertainty. The Met accepts the donation like any other work with legal title. The IRS²¹⁹ grants a charitable deduction at fair market value based on the assumption of legal title. Nor is there adverse selection. Donor A cannot sell²²⁰ the painting regardless of whether or not she conceals information.²²¹ In either case, she will donate it, suggesting that no lemon problem exists in this scenario, regardless of whether the museum accepts the donation or not.

III. TRANSACTIONAL APPROACH TO NAZI-LOOTED ART

Part III lays out the Article's key proposal—establishing a fund that purchases and removes Nazi-looted art from the art market and situates the fund in the existing legal and market conditions. *Part III.A* provides a brief overview of the existing legal landscape. *Part III.B* outlines the structure of the HEAR Fund and its benefits. *Part III.C* explains the scope of the HEAR Fund and its mechanisms for dealing with temporary and permanent uncertainty. *Part III.D* outlines the importance of the HEAR Fund being

218. See Alyssa Buffenstein, *The 14 Most Generous Museum Donations of 2016*, ARTNET (Dec. 26, 2016) <https://news.artnet.com/art-world/the-most-generous-museum-donations-of-2016-778256> [<https://perma.cc/UD83-HH6P>] [<https://web.archive.org/web/20221014003953/https://news.artnet.com/art-world/the-most-generous-museum-donations-of-2016-778256>] and Daniel Grant, *Want to Donate Your Collection to a Museum? Read This First*, OBSERVER (Dec. 23, 2016) <http://observer.com/2016/12/art-collection-donation-advisers-lawyers-talk-how> [<https://perma.cc/EV23-YXPR>] [<https://web.archive.org/web/20221014004205/https://observer.com/2016/12/art-collection-donation-advisers-lawyers-talk-how>].

219. The Art Advisory Panel of the Commissioner of Internal Revenue consists of up to twenty-five volunteers who are nationally prominent art museum directors, curators, scholars, art dealers, auction house representatives, and appraisers. *Art Appraisal Services*, IRS, <https://www.irs.gov/appeals/art-appraisal-services> [<https://perma.cc/MU96-NPHE>] [<https://web.archive.org/web/20230106164241/https://www.irs.gov/appeals/art-appraisal-services>] (“The Panel members, up to 25 renowned art experts, serve without compensation.”). Whether it would issue a discounted valuation based on the unverifiable provenance is disregarded here. The Internal Revenue Manual at 4.48.2 and 8.18.1.3 only requires that a case selected for an examination that includes a single work of art or cultural property valued at \$50,000 or more must be referred to the IRS office of Art Appraisal Services for possible review by the Panel. “During Fiscal Year 2021, the Panel reviewed 112 items with an aggregate taxpayer valuation of \$155,816,250 on twenty-seven taxpayer cases. The average claimed value for an item reviewed by the Panel was \$1,391,217. The Panel recommended accepting the value of thirty-nine items or thirty-five percent of the items presented. It adjusted the values of seventy-three items or sixty-five percent. On the seventy-three items adjusted, the Panel recommended total net adjustments of \$16,806,838 to the claimed values, an eleven percent increase.” *Publication 5392: The Art Advisory Panel of the Commissioner of Internal Revenue*, IRS (May 2022), <https://www.irs.gov/pub/irs-pdf/p5392.pdf> [<https://perma.cc/6Y8D-HEUE>] [<https://web.archive.org/web/20221014004747/https://www.irs.gov/pub/irs-pdf/p5392.pdf>]. As far as the author can tell, there is no breakdown whether the adjustments were for estate or charitable deduction purposes. One could argue that the IRS' interest is assessing a higher fair market value for estate tax purposes since it is the cost basis for the assessed taxes.

220. The model assumes that all participants avail themselves of all available information and adhere to existing market practices. A sale through a less reputable auction house or through a private deal to a buyer forgoing any due diligence or undeterred by the incomplete provenance is disregarded.

221. It is irrelevant whether Donor A knows about the 1943 auction purchase in Switzerland, or whether her father was a good faith purchaser himself and had no knowledge of the 1943 auction purchase in Switzerland.

transparent, public, and indefinite to address systemic inefficiency and liquidity issues. It discusses the procedures to achieve this, building on previously suggested models. *Part III.E* concludes with a brief overview of financing mechanisms to fund the HEAR Fund. It acknowledges challenges posed by high-value restitutions and recommends accessing the capital markets by issuing Masterpiece Bonds as a risk mitigation solution.

A. THE EXISTING LEGAL LANDSCAPE

The legal concepts of *nemo dat quod non habet*, statutes of limitations, and laches create a perpetual disconnect between the property right and the legal enforceability of a claim arising from that right. Barring the owner from enforcing a property claim while simultaneously denying title to the current possessor permanently divorces the object from the title property right, creating orphaned artworks that cannot be sold and purchased legally. The current possessor can exclude others by prevailing in a lawsuit, thereby obtaining de facto exclusive rights, but the buyer will not receive the full bundle of property rights. This depresses the work's economic value and attaches a permanent moral specter.

There has been no shortage of well-intentioned but unimplemented proposals to assist restitution efforts by claimants of Nazi-looted art. Most proposals remain anchored in the bilateral structure of restitution as a zero-sum game. One party takes home the painting, and the other is left empty-handed.²²²

In 2016, the federal government, acting under its constitutional authority²²³ to conduct foreign affairs²²⁴ (and therefore unencumbered by the constitutional objections which blocked previous state attempts),²²⁵ enacted the Holocaust Expropriated Art Restitution (HEAR) Act.²²⁶ Despite its best intentions, it does not

222. One notable exception to this approach is the pre-trial settlement over *Landscape with Smokestacks* (*Paysage avec Fumée des Cheminées*) by Edgar Degas in *Goodman v. Searle*, Docket No. 1:96-cv-06459 (N.D. Ill. Filed Oct 03, 1996). ALFORD & BAZYLER, *supra* note 39, at xv. See also Ron Grossman, *Battle Over War-Loot Degas Comes To Peaceful End*, CHI. TRIB. (Aug. 14, 1998, 12:00 AM), <https://www.chicagotribune.com/news/ct-xpm-1998-08-14-9808140105-story.html> [<https://perma.cc/F45C-K78W>] [<https://web.archive.org/web/20230106165513/https://www.chicagotribune.com>]. See generally HOWARD J. TRIENENS, *LANDSCAPE WITH SMOKESTACKS: THE CASE OF THE ALLEGEDLY PLUNDERED DEGAS* (Northwestern Univ. Press 2000).

223. See William L. Charron, *The Problem of Purely Procedural Preemption Presented by the Federal HEAR Act*, 2018 PEPP. L. REV. 19 (2018) for the HEAR Act's possible violation of the Tenth Amendment by only providing preemption to state causes of action on a procedural basis without the creation of a binding and substantive federal right or cause of action.

224. *Movesian v. Victoria Versicherung AG*, 670 F.3d 1067, 1071 (9th Cir. 2012) (*en banc*), *cert. denied* 569 U.S. 1029 (2013).

225. The California legislature made numerous attempts to support and aid Holocaust victims and their heirs. For a detailed overview and discussion of the California legislative attempts, see Rajika L. Shah, *The Making of California's Art Recovery Statute: The Long Road To Section 338(c)(3)*, 20 CHAP. L. REV. 77, 88–117 (2017).

226. For legislative history, see also Jason Barnes, *Holocaust Expropriated Art Recovery (HEAR) Act of 2016: A Federal Reform To State Statutes of Limitations for Art Restitution Claims*, 56 No. 3 COLUM. J. TRANSNAT'L L. 593, 611–616 (2018).

give claimants a clear remedy to use and rely on in their restitution efforts and did not “end an enduring injustice for Holocaust victims and their families.”²²⁷

The HEAR Act’s central provision extends the limitation period for civil claims to recover any artwork lost during the covered period because of Nazi persecution to six years. The clock starts running with the claimant’s actual discovery of the artwork’s identity and location and his possessory interest in the artwork.²²⁸

Under “Findings,” the HEAR Act explicitly refers to specific cases, and Section 2(7) mentions *Von Saher v. Norton Simon Museum of Art* in its justification of federal legislation. Ironically, the HEAR Act did not tip the scales of justice in the claimant’s favor in the *Von Saher* case, and the daughter-in-law of the Dutch art dealer Jacques Goudstikker was unable to recover the *Adam and Eve* diptych by Lucas Cranach the Elder from the Norton Simon Museum.²²⁹

The HEAR Act raises more questions than it answers. The definition of “lost” contained in the initial bill²³⁰ was removed, leaving the highly controversial question of how to treat forced sales up to the courts. Section 5(a), the heart of the statute, was significantly weakened by the removal of the preclusion of equitable defenses (including laches).²³¹ This elimination adds uncertainty²³² to the HEAR Act and is contrary to its primary motivation to assist claimants. The amendments made in September 2016²³³ also included an “exception that bars claims known on or after January 1, 1999,”²³⁴ potentially requiring complex choice-of-law analysis. Arguably the most problematic amendment is the sunset provision.²³⁵ It significantly weakens the statute’s impact by enabling current possessors to wait for its expiration before trying to sell Nazi-looted art. As outlined in the testimony of the President of the Commission for Art Recovery,

227. *HEAR Act Signed Into Law*, COMM’N FOR ART RECOVERY (Mar. 7, 2018), <https://web.archive.org/web/20210603110941/http://www.commartrecovery.org/hear-act>.

228. HEAR Act, *supra* note 9.

229. In July 2018, after more than a decade of litigation, the Ninth Circuit ruled that the act-of-state doctrine barred von Saher’s claim for the return of the paintings and affirmed that the Norton Simon Museum was the legal owner of *Adam and Eve*. *Von Saher v. Norton Simon Museum of Art*, 897 F.3d 1141 (9th Cir. 2018). The U.S. Supreme Court denied the writ of certiorari on May 20, 2019. *Marei von Saher, Petitioner v. Norton Simon Museum of Art at Pasadena, et al.*, SUP. CT. OF THE U.S., <https://www.supremecourt.gov/search.aspx?filename=/docket/docketfiles/html/public/18-1057.html> [<https://perma.cc/CVM9-M4K2>] [<https://web.archive.org/web/20230106170619/https://www.supremecourt.gov/search.aspx?filename=/docket/docketfiles/html/public/18-1057.html>].

230. “[T]he term ‘unlawfully lost’ includes any theft, seizure, forced sale, sale under duress, or any other loss of an artwork or cultural property that would not have occurred absent persecution during the Nazi era.” Holocaust Expropriated Art Recovery Act, S. 2763, 114th Cong. § 4 (as introduced in Senate, Apr. 7, 2016).

231. See Rachel Sklar, *Holocaust-Era Art Restitution Claims: Is the HEAR Act a Game Changer?*, LARC @ CARDOZO L. 159, 194 (2018) (describing proposed amendment to bar defendants from invoking laches defense).

232. See Barnes, *supra* note 226, at 635. The HEAR Act aimed to introduce a bright-line rule with “actual discovery” but essentially may allow constructive discovery through the equitable defense of laches. Additional uncertainty may be introduced by this due to the reversal of the burden of proof.

233. See S. 2763 Amendment, *supra* note 223.

234. See S. Rep. No. 114-394, at 7 (2016). See also Barnes, *supra* note 226, at 631.

235. The “Act shall cease to have effect on January 1, 2027.” HEAR Act, *supra* note 9, at § 5(g).

Dr. Agnes Peresztegi,²³⁶ the HEAR Act may extinguish claims which could have received more favorable treatment in some jurisdictions—for example, New York state’s demand and refusal rule.²³⁷

The HEAR Act falls short in several ways. Given the complexity and expense of obtaining information from archives,²³⁸ extending the statute of limitations from three to six years does not provide a realistic timeframe for claimants to obtain the information necessary to pursue a claim. If claimants are to have their day in court to settle or litigate these cases on the merits,²³⁹ there is no reason not to remove statutes of limitations for these types of cases altogether. The main argument for limitations statutes—the loss of evidence—can affect either party. The desired goal of legal certainty is already weakened by the permanent divorce of title from the property by the *nemo dat quod non habet* rule. Therefore, the question is why the law should shield current possessors without legal title from an enforceable claim after three years, six years, or at all.²⁴⁰ Dr. Peresztegi’s testimony succinctly sums up the HEAR Act’s shortcomings in this regard:

The Committee should consider that the HEAR Act would not achieve its purpose of enabling claimants to come forward if it eliminates one type of procedural obstacle in order to replace it with another. To cite some concerns: narrowing the definition of looted art, shifting the burden of proof unnecessarily in some instances to the claimant; and generally adding or confirming other procedural obstacles. Cases related to Holocaust looted art should only be adjudicated on the merits.²⁴¹

The following brief overview does not discuss the specifics of each claim or legal issue, as the details are irrelevant to this Article’s analysis. Out of the eight cases invoking the HEAR Act, so far the claimants have succeeded in one, failed in three, and

236. *Holocaust Expropriated Art Recovery Act: Hearing on S. 2763 Before the Subcomms. on the Constitution, Subcommittee on Oversight, Agency Action, Fed. Rts. and Fed. Courts*, 114th Cong. 1 (2017) [hereinafter Subcommittee Hearing] (testimony of Agnes Peresztegi, President, Commission for Art Recovery).

237. The sunset rule may, in effect, preserve such a claim if a claimant decides not to proceed under the HEAR Act and simply waits for its expiration. However, there is the danger that the work is sold or otherwise disappears during the waiting period, and the claimant may no longer know where to make his demand after January 1, 2027.

238. Obtaining such information is a complex undertaking and can require travel and/or engaging the services of researchers and translators, as well as finding and retaining lawyers.

239. See Subcommittee Hearing, *supra* note 236, and related text.

240. See generally Cuba, *supra* note 30, at 447 (calling for a suspension of the statute of limitations for Nazi-looted art). See also Jennifer Anglim Kreder et al., *Legal and Ethical Problems in Art Restitution: CLE Materials*, SSRN 22 (2008), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1098348 [<https://perma.cc/9LAQ-4DQ7>] [https://web.archive.org/web/20221101183727/https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1098348] (customary international law in turn affects all civil actions and some commentators hold the opinion that courts should consider “a relaxed standard for application of statutes of limitations and laches in cases involving property looted during World War II.”).

241. Subcommittee Hearing, *supra* note 236, at 2.

four cases are still pending. *Reif v. Nagy*,²⁴² a case involving two Schiele works, *Woman in a Black Pinafore* and *Woman Hiding Her Face*, is the only case to date under the HEAR Act resolved in favor of the heirs of the original Jewish owner, Fritz Grünbaum.

As mentioned earlier, the heir of the Dutch art dealer Jacques Goudstikker sought restitution of the *Adam and Eve* diptych from the Nortoan Simon Museum.²⁴³ The parties had disagreed on many issues, including the statute of limitations, pre-emption by the foreign affairs doctrine, and good-faith purchase. Several iterations of the state of California extending its statutes of limitations were tested during the course of the lawsuit, which eventually also invoked the HEAR Act. In the end, the HEAR Act, however, did not save von Saher's claim.

In *Zuckerman v. Metropolitan Museum of Art*, a case involving the painting *The Actor* by Pablo Picasso donated to the Met in 1952, the New York district court never reached the HEAR Act but granted the defendant's motion to dismiss based on the plaintiff's failure to show the work was not sold but lost due to duress.²⁴⁴ The Second Circuit, on appeal in an unusual ruling, held that the claim was barred by the laches doctrine.²⁴⁵

A federal case²⁴⁶ in the District of Columbia against the German government involved the allegedly forced sale of a valuable collection of medieval Christian relics known as the *Guelph Treasure (Welfenschatz)*. The case reached the United States Supreme Court with a question under the Foreign Sovereign Immunities Act (FSIA). The Court vacated the lower court's decision and remanded the case, holding that the domestic takings rule is incorporated in the FSIA's expropriation exception (28 U.S.C. § 1605(a)(3)) because the taking of its own nationals' property by a foreign national does not violate international law.²⁴⁷ On remand, the District Court denied plaintiffs' Motion for Leave to File a Second Amended Complaint to add "allegations about Nazi German's policies with regard to nationality, and specific allegations about the nationality of the specific victims."²⁴⁸ In August 2022, the complaint was dismissed and the court held that the plaintiffs failed to preserve their argument that the sale of the *Welfenschatz* is not subject to the domestic takings rule because the Consortium members were not German nationals at the time of the sale.²⁴⁹

The currently pending cases include the matter of *Estate of Kainer v. UBS AG*,²⁵⁰ an ownership and inheritance dispute over the Edgar Degas painting *Danseuses*. It involves the question of whether the HEAR Act only applies to claims for the physical return of Nazi-looted art or if it also applies to claims for monetary damages. The court declined

242. *Reif v. Nagy*, 106 N.Y.S.3d 5 (1st Dep't 2019). The works are part of the same Grünbaum collection previously litigated in *Bakalar v. Vavra*, 819 F. Supp. 2d 293 (S.D.N.Y. 2011), *aff'd*, 500 F. App'x 6 (2d Cir. 2012).

243. See information in *supra* note 229.

244. *Zuckerman v. Metro. Museum of Art*, 307 F. Supp. 3d 304, 319–21 (S.D.N.Y. 2018).

245. *Zuckerman v. Metro. Museum of Art*, 928 F. 3d 186, 193–97 (2d Cir. 2019).

246. *Philipp v. Fed. Republic of Germany*, 894 F.3d 406 (2018). See also NICHOLAS M. O'DONNELL, *A TRAGIC FATE: LAW AND ETHICS IN THE BATTLE OVER NAZI-LOOTED ART* 319–20 (2017) for a brief reference by the plaintiff's lawyer in his book.

247. *Fed. Republic of Germany v. Philipp*, 141 S. Ct. 703 (2021).

248. *Alan Philipp v. Stiftung Preussischer Kulturbesitz*, No. 15-cv-00266-CKK (D.D.C. July 26, 2021).

249. *Alan Philipp v. Stiftung Preussischer Kulturbesitz*, No. 15-cv-00266-CKK (D.D.C. Aug. 25, 2022).

250. *Estate of Kainer v. UBS AG*, No. 650026/13, 2017 WL 4922057 (N.Y. Sup. Ct., Oct. 31, 2017).

to address whether the HEAR Act can revive “plaintiffs’ action against Christie’s for aiding and abetting breach of fiduciary duty and conversion” at the motion to dismiss stage.²⁵¹ The New York case is currently stayed pending a final determination in the ongoing European proceedings that the plaintiffs are Kainer’s lawful heirs with exclusive rights to *Danseuse*.²⁵²

The Camille Pissarro painting *Rue Saint-Honoré, après-midi, effet de pluie* at the Spanish art foundation Thyssen-Bornemisza Collection is the object of dispute in *Cassirer v. Thyssen-Bornemisza Collection Found.*²⁵³ This case also reached the United States Supreme Court on a writ of certiorari with the question of what choice-of-law rule should be applied in an FSIA case raising non-federal claims. The Court held that the forum State’s choice-of-law rule should be applied and vacated the lower court’s decision relying on a rule deriving from federal common law.²⁵⁴ The oral argument at the U.S. Court of Appeals for the Ninth Circuit took place on December 23, 2022.²⁵⁵

Amedeo Modigliani’s painting *Seated Man With a Cane* has been the object of numerous lawsuits in federal and state courts in New York. In the 2018 case,²⁵⁶ the court rejected the defendant’s contention that a choice of law analysis displaced the HEAR Act. In May 2018, Judge Bransten denied the defendant’s motion to dismiss and ruled that New York law applied to the case.²⁵⁷ The defendant also contends that *Seated Man With A Cane* is not the same painting that Stettiner owned.²⁵⁸ The case is currently stayed pending the appointment of a successor representative of the Estate of Oscar Stettiner due to the death of the former representative George W. Gowen.²⁵⁹

The long-standing dispute *de Csepel v. Republic of Hungary*²⁶⁰ chronicles a family’s recovery efforts of works seized by the World War II-era Hungarian government and its Nazi collaborators. In June 2017, the Court of Appeals for the District of Columbia Circuit²⁶¹ held that de Csepel’s claim satisfied the FSIA’s expropriation exception and

251. *Id.*, at *15; *Case Digest Summary, Estate of Kainer v. UBS AG*, N.Y.L.J. 23, 29 (Nov. 27, 2017), <https://www.law.com/newyorklawjournal/almID/1511331787NY65002613/?slreturn=20221001145754> [<https://web.archive.org/web/20221101185947/https://www.law.com/newyorklawjournal/almID/1511331787NY65002613/?slreturn=20221001145946>].

252. *Kainer*, 2017 WL 4922057, at *15.

253. *Cassirer v. Thyssen-Bornemisza Collection Found.*, 862 F.3d 951 (9th Cir. 2017).

254. *Cassirer v. Thyssen-Bornemisza Collection Found.*, 142 S. Ct. 1502 (2022).

255. Please see the court docket.

256. *Gowen v. Helly Nahmad Gallery, Inc.*, 77 N.Y.S.3d 605 (N.Y. Sup. Ct. 2018).

257. *Gowen*, 77 N.Y.S.3d, *aff’d.*, *Gowen v. Helly Nahmad Gallery, Inc.*, 95 N.Y.S.3d 62 (2019).

258. Catherine Hickley, *New Evidence Cited in Restitution Claim for Panama Papers Modigliani*, THE ART NEWSPAPER (Jan. 9, 2020), <https://www.theartnewspaper.com/2020/01/09/new-evidence-cited-in-restitution-claim-for-panama-papers-modigliani> [<https://perma.cc/8V97-98LE>] [<https://web.archive.org/web/20230106174311/https://www.theartnewspaper.com/2020/01/09/new-evidence-cited-in-restitution-claim-for-panama-papers-modigliani>].

259. See Joint Motion, *Gowen v. Helly Nahmad Gallery, Inc.*, No. 2020-03128 (N.Y. App. Div., June 4, 2021).

260. *De Csepel v. Republic of Hungary*, 859 F.3d 1094 (D.C. Cir. 2017), *reh’g denied*, No. 16-7042 (D.C. Cir. Oct. 4, 2017). The Herzog collection of Old Master paintings included artists such as El Greco, Courbet, and Lucas Cranach. For background and analysis, see generally BRUCE L. HAY, NAZI-LOOTED ART AND THE LAW 239–251 (2017) and O’DONNELL, *supra* note 246, at 255–282.

261. “Given that Congress enacted the Holocaust Expropriated Art Recovery Act for the very purpose of permitting claims like these to continue despite existing statutes of limitations, ‘justice’ quite obviously requires that the family be given leave to amend their complaint.” *De Csepel*, 859 F.3d at 1110. The court

granted the plaintiffs leave to amend their claim in light of the HEAR Act. Following numerous appeals²⁶² and a writ of certiorari, defendants' motion to dismiss and cross motions for summary judgment by both parties are currently pending at the U.S. District Court for the District of Columbia.²⁶³

This cursory overview illustrates that the HEAR Act does not live up to its primary purpose: "(1) To ensure that laws governing claims to Nazi-confiscated art further United States policy as set forth in the Washington Conference Principles on Nazi-Confiscated Art, the Holocaust Victims Redress Act, and the Terezin Declaration."²⁶⁴ Proposals focused on arbitration or mediation broaden the array of possible solutions involving more creative settlements not prefaced on a "winner takes all" concept. However, even alternative dispute resolution mechanisms often remain locked in a rights or power-based approach.²⁶⁵ The latest such solution is a new Court of Arbitration for Art dedicated to art-related disputes under the aegis of the Netherlands Arbitration Institute.²⁶⁶ In any case, it, like other non-litigation proposals, requires flexibility and amenability to compromise from the involved parties. The same is true for contract solutions like restitution agreements facilitated by an auction house. As suggested by Burton:

Any viable reform must provide a mechanism to sort out the massive ownership snarls arising out of World War II. Additionally, an element of any serious proposal must include a mechanism to establish a lasting provenance for art objects, and in doing so, offer maximum justice for all innocent parties.²⁶⁷

B. THE HEAR FUND

Depending on the weight attached to restitution as a value in itself, the interest-based approach proposed in this paper is a positive-sum game, or at least a win-win. It also addresses the illiquidity and information deficit created by existing approaches. Auction houses and museums returning Nazi-looted art or Covered Objects to the current possessor leave dubious title questions unresolved. Such works either find their way to a less diligent sub-market and perpetuate the issue through subsequent transactions. Alternatively, they are deemed unsellable and create a liquidity issue. The

rejected the defendant's claim for a form of equitable estoppel to deny plaintiffs leave to amend their complaint.

262. In 2022, the Court of Appeals dismissed Hungary from the case but allowed the Hungarian National Asset Management Inc. to be added as a defendant. *De Csepel v. Republic of Hungary*, No. 20-7047 (D.C. Cir. 2022).

263. Please see the court docket.

264. HEAR Act, *supra* note 9 § 3(1).

265. See also Grant Strother, *Resolving Cultural Property Disputes in the Shadow of the Law*, 19 HARV. NEGOT. L. REV. 335, 366 (2014) (arguing that "cultural property dispute resolution would benefit from a shift away from a rights and power focus").

266. See *Court of Arbitration for Art, CAFA*, <https://www.cafa.world/cafa> [<https://perma.cc/4RZQ-4N4Q>] [<https://web.archive.org/web/20221007062724/https://www.cafa.world/cafa>] (last visited Nov. 1, 2022). The author could not find any information on pending or resolved arbitrations or mediations.

267. Burton, *supra* note 116.

HEAR Fund addresses this misallocation of resources and yields social gains.²⁶⁸ Based on a transient quality assessment, the Fund releases currently trapped liquidity. It captures and removes works without full legal title from the market. The quality is improved through restitution and other mechanisms allowing the works to reenter the market with clear title. This is important as even legal decisions granting restitution seem to fall short of this.²⁶⁹

The HEAR Fund is an insurance solution similar to the Troubled Asset Relief Program (TARP) created by the U.S. government²⁷⁰ and the Torrens land registration system employed by a handful of U.S. states. Historically, art, like land, was not intended for resale. Under the feudal system, land was not part of commerce, and transferring ownership was difficult.²⁷¹ Art was initially commissioned by a state, the church, or aristocrats and sales were stigmatized.²⁷² Land title reform addressed the technicalities and legal difficulties restricting land transfer by substituting simple business rules governing other commerce areas.²⁷³ A seller, buyer, or provenance researcher faces circumstances similar to those encountered by a researcher of a public registry for land deeds: “Each searcher, as a rule, worked for himself and each buyer had a different attorney, so that the same title was searched over and over again.”²⁷⁴

The HEAR Fund will act as a quality control mechanism for the art market and offers quality approval similar to the Food and Drug Administration or the Occupational Safety and Health Administration. Evaluating and managing uncertainty arising from future unknown risks is a key issue for Nazi-looted art, especially in ambiguous cases. High transaction costs, as well as disruptions and distortions to the market, complicate the issue.

Several reform objectives, as well as components of the proposed Fund, are not new concepts. However, the specific combination of the components set forth in this Article

268. See JAMES HEILBRUNN & CHARLES M. GRAY, *THE ECONOMICS OF ART AND CULTURE* 203 (Cambridge Univ. Press 2001).

269. The Appellate Division in *Reif v. Nagy* noted, “[i]t is important to note that we are not making a declaration as a matter of law that plaintiffs established the estate’s absolute title to the Artworks. Rather, we are adjudicating the parties’ respective superior ownership and possessory interests. We find that plaintiffs have met their burden of proving superior title to the Artworks.” *Reif v. Nagy*, 106 N.Y.S.3d 5, 24 (1st Dep’t 2019).

270. Following the financial crisis and economic fallout in 2007/2008, TARP sought to tackle the subprime mortgage crisis and strengthen the battered financial sector by purchasing so-called toxic assets from banks and other financial institutions. About TARP, U.S. DEP’T OF THE TREASURY, <https://home.treasury.gov/data/troubled-assets-relief-program/about-tarp#:~:text=TARP%20is%20the%20Troubled%20Asset,the%20financial%20crisis%20of%202008> [<https://perma.cc/3C6C-2LMG>] [<https://web.archive.org/web/20230106175704/https://home.treasury.gov/data/troubled-assets-relief-program/about-tarp>].

271. JOHN J. HOPPER & WALTER FAIRCHILD, *A SKETCH OF THE TORRENS SYSTEM OF LAND TITLE REGISTRATION AND ITS APPLICATION IN OTHER COUNTRIES AND ESPECIALLY IN THE STATE OF NEW YORK* 8 (Eagle Press 1916).

272. See also Helen Rees, *Art Exports and the Construction of National Heritage in Late-Victorian and Edwardian Great Britain*, in 31 *ECONOMIC ENGAGEMENTS WITH ART* 187, 201 (Neil de Marchi & Craufurd D. W. Goodwin eds., Duke Univ. Press 1999) for the “self-restraint over the disposition of inherited property that had underpinned the English estates system” and the Settled Land Act of 1882, which opened the door for divestment of land or heirloom property.

273. HOPPER, *supra* note 271, at 9.

274. *Id.* at 11.

makes the HEAR Fund unique. The HEAR Fund advances several objectives. It provides a measure of justice by restituting Nazi-looted art to the original owner. It ensures procedural fairness for both innocent parties²⁷⁵ through monetary compensation.²⁷⁶ Restitution provides clear legal title and removes ambiguous artwork from the market, promoting marketplace stability and transparency.

The HEAR Fund can be set up as a contractual solution, a market solution, or a legal solution. It can also be conceived as a combination of the three. A contractual solution is a bilateral agreement between the transacting parties. The transaction takes place between the current possessor and the original owner. Restitution or other settlements already capture this scenario, rendering the HEAR Fund unnecessary as a contractual solution. As a market solution, it can either be adopted through market design or unilaterally by one of the transacting parties. The third category is a legal solution, introducing the HEAR Fund or parts of it through legislation or regulation.²⁷⁷ The U.S. government can create the HEAR Fund to strengthen its commitment to its executive policy on Nazi-looted art restitution. Theoretically, the HEAR Fund can also be conceived as an international treaty, along the lines of the Washington Principles, but with binding effect and national implementation. It is superior to the Washington Principles since its binding solutions and established procedures can achieve just and fair solutions. Public perception of justice depends on case law based on thorough reasoning and a visible *ratio decidendi*.²⁷⁸ The HEAR Fund can function equally effectively as a marketplace solution or a public-private joint venture.

275. See *infra* Part IV.C.1.a for a discussion of bad faith possessors.

276. The concept of monetary compensation for the possessor in case of restitution is not new or unique. See e.g., *UNIDROIT Convention on Stolen or Illegally Exported Cultural Objects*, UNIDROIT (June 24, 1995), <https://www.unidroit.org/instruments/cultural-property/1995-convention> [<https://perma.cc/3FMG-27M8>] [<https://web.archive.org/web/20221020224048/https://www.unidroit.org/instruments/cultural-property/1995-convention>]. The UNIDROIT Convention specifies that “[t]he possessor of a stolen cultural object required to return it shall be entitled, at the time of its restitution, to payment of fair and reasonable compensation provided that the possessor neither knew nor ought reasonably to have known that the object was stolen and can prove that it exercised due diligence when acquiring the object.” *Id.* at art. 4. What differentiates the compensation in connection with the proposed Fund is the source of the compensation.

277. The Native American Graves Protection and Repatriation Act (NAGPRA), Pub. L. No. 101-601, 104 Stat. 3048 (1990) (codified at 25 U.S.C. §§ 3001–13 (2002)), for example, requires that federal agencies and institutions receiving federal funding return specific cultural items. It also mandates the compilation of inventories of affected cultural items and sharing such inventories with potential claimants. NAGPRA also provides grants for the consultation, documentation, and repatriation of covered cultural items. The Washington Principle and the HEAR Act missed a chance to institute similar regulations.

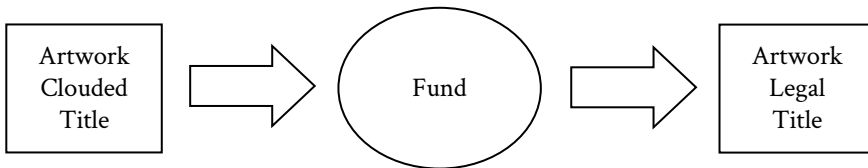
278. “In his seminal text ‘Legitimacy through Procedure’ (*Legitimation durch Verfahren*) Niklas Luhmann, the leading German legal sociologist, identifies the sociological function of procedure—to achieve legitimacy. Legitimacy, from a purely sociological point of view means, that a decision is accepted by the majority of the public to an extent that critiques decide to become silent so that there is no longer a dispute.” See Matthias Weller, *Key Elements of Just and Fair Solutions*, 1 *Kunstrechtsspiegel* 15, 18 (2015).

C. SCOPE OF THE HEAR FUND

1. Initial Fund Set Up

Initially, the HEAR Fund will capture Nazi-looted art or ambiguous works current possessors are divesting through consignment to an auction house or donation to a museum.

a. Nazi-looted Art held by Auction Houses and Museums



Initially, the Fund will cooperate with the auction houses and museums currently holding Nazi-looted art subject to an ownership conflict. These art market actors have become embroiled in disputes being caught between the consigning or donating possessors and valid claims by original owners. The possessor already indicated his divestment intention, and it is safe to assume that compensation is the only obstacle standing in the way of restitution. The auction houses and museums have strong incentives to cooperate with the HEAR Fund. It eliminates storage and insurance costs and allows them to extract themselves from contentious relationships with consignors and donors.

Since the HEAR Fund's main goal is to achieve and facilitate restitution, it must include asymmetric information cases. The overall restitution goal prevails over possible objections to compensating a bad faith possessor. The current possessor not being the original thief or party to any sham transaction separating the artwork from its original owner is a mitigating circumstance, and other safeguards can be implemented. In the worst-case scenario, the possessor knowingly received stolen goods. The best-case scenario is that he was genuinely unaware. In case of strong evidence that the possessor had private information and possessed the work in bad faith, the compensation he receives, for example, can be adjusted to reflect this.

The legal system favors the current possessor. Nonetheless, the desirability of doing the right thing combined with compensation is more appealing to the possessor than protracted and expensive litigation, securing his possession at the cost of negative publicity and legal fees. Any eventual sale remains subject to the specter of clouded title regardless of a favorable court decision, and sales prices can be disappointing.²⁷⁹ The present value of future sale proceeds, legal fees, and risk aversion makes a buy-out offer from the HEAR Fund the preferred option for a bad-faith possessor.

Similar considerations apply to good-faith possessors in the temporary uncertainty category. The HEAR Fund's immediate compensation—based on a formula to be

279. See auction result for Egon Schiele, *Sitzende mit angezogenem linken Bein (Torso) (Seated Woman with Bent Left Leg (torso)* (painting), *supra* Part II.C; see *Art Auction Result for Egon Schiele*, *supra* note 70.

determined²⁸⁰—must be evaluated against the time delay and risk at auction. Despite record-level auction results making headlines, there is no guarantee of achieving a price exceeding the reserve price or the work selling at all. The number of unsold lots can be as high as thirty percent depending on the auction.²⁸¹ It not only impacts the consignor's immediate liquidity: because works that initially fail to sell typically are considered "burned," impacting subsequent sales attempts,²⁸² it also affects the realization of desired liquidity in the future. The separate question of whether and how much the issue of a clouded title and negative publicity impacts the availability of a guarantee is an interesting question that exceeds this Article's scope. Besides, any litigation is costly, and the initial sales decision likely was motivated by a need for cash.²⁸³ These circumstances make a HEAR Fund buy-out an appealing option for the current possessor.

b. Nazi-looted Art Returned to Consignor or Donor

The second category of Nazi-looted art captured by the HEAR Fund are works the auction house determined are Nazi-looted art without a known claimant or with unclear provenance. Returning the work to the current possessor and not disclosing the compiled provenance information is inefficient and produces social waste.

The possessor can sell the Nazi-looted art through another channel and work with defective title continues circulating on the market. The second inefficiency is that the provenance information remains siloed at the auction house and, at best, continues to be used internally. If the provenance information and documentation are provided to the possessor, disclosure is unlikely as it minimizes his chances of a successful transaction. It creates another case of information asymmetry. Lastly, subsequent interested parties acting diligently must replicate research efforts, duplicate costs, and incur sunk cost to obtain and confirm the already existing information.

The HEAR Fund steps in and purchases the work from the current possessor with the discussed benefits. The possessor divests the Nazi-looted artwork without the veil of impropriety and does not have to hide the existing provenance information to achieve a sale.

In the absence of data and uniform treatment, divergent models acknowledging and inclusively framing risk are necessary to develop public policy. Missing data is a twofold issue: First, how much Nazi-looted art exists and can enter the commerce stream is unknown. Second, the future risk of artwork in the ambiguity category is uncertain—provenance cannot be fully ascertained with presently available and accessible

280. The exact determination of such a formula exceeds the scope of this article. It could be based on how the IRS calculates the value for the income tax deduction for donated artwork. *IRS Publication 526: Charitable Contributions*, *supra* note 211, at 20.

281. Orley Ashenfelter & Kathryn Graddy, *Auctions and the Price of Art*, 41 J. ECON. LIT. 763, 779 (2003).

282. Ashenfelter and Graddy note that the future value of bought-in items is negatively affected. They are "burned," yielding thirty percent less at a future sale than a previously sold work. *Id.* at 773–74.

283. According to insiders, many—if not most—sales are motivated by one of the four Ds: Death, Disaster, Debt, or Divorce.

information. Such artwork does not have clear legal title, nor can it be labeled as Nazi-looted art.

Earlier ambiguity was associated with factual impossibility. The category definitions are clarified here, but the categorizations remain unchanged. The main problem is that the delineation is fluid and only assessable *ex-post*. Any eventually-resolvable information deficit is considered temporary uncertainty regardless of how long it takes to resolve the uncertainty. This leaves only truly ambiguous cases in the permanent uncertainty category.

i. Temporary Uncertainty

As the initial step, the HEAR Fund removes the identified Nazi-looted art with unknown original owners or unknown provenance from the market. Subsequently, it continues research efforts, publicizes the work and available provenance information, and monetizes that information as described below. By definition, works only remain in this category temporarily. At some point, further research or claimants coming forward moves the Nazi-looted art into the category of having a known claimant. In that case, the work can be restituted to the original owner and enter the market with clean title. Since the market typically is willing to pay a premium for a restituted work, the original owner has market incentives to disclose the work's provenance. As additional safeguards and to ensure the information travels with the work and does not become sequestered in an information silo again, disclosure provisions can be built into the restitution agreement between the HEAR Fund and the original owner. The works not exiting the temporary uncertainty category through this avenue move into the permanent uncertainty category.

A further distinction is necessary at this point. Additional research can reveal the original owner, but there may not necessarily be a claimant if the original owner did not have any descendants or heirs or if they cannot be located. Such works can be treated similarly to works in the ambiguity category.

ii. Ambiguity (Permanent Uncertainty)

These are artworks with provenance gaps where, despite best efforts and investigation, the ownership chain cannot be fully and reliably established, leaving clouded title as the best-case entitlement. Legal title to such work does not exist due to factual impossibility. Evolving industry standards in the market are increasingly demanding full provenance for potentially Nazi-looted art. This leads to such works being unsellable, creating a liquidity issue for the possessor and the market.²⁸⁴ Any Covered Object without a clear provenance is an illiquid asset. Generally, collectors or investors who want to utilize their artworks as collateral purchase title insurance for their collection. Title insurance is not available for Covered Objects. Possessors looking

284. Eve M. Kahn, *Does My Family Own a Painting Looted by Nazis?*, N.Y. TIMES (Apr. 5, 2016), <https://www.nytimes.com/2016/04/10/arts/design/does-my-family-own-a-painting-looted-by-nazis.html> [<https://perma.cc/6RNG-XE7G>] [<https://web.archive.org/web/20221017201820/https://www.nytimes.com/2016/04/10/arts/design/does-my-family-own-a-painting-looted-by-nazis.html>].

for a deduction on their tax return for donating the work to a museum will not purchase a Covered Object due to the uncertainty of a museum accepting it as a donation.

As with the other categories, the HEAR Fund will acquire such works as a first step and remove them from a potential illicit market.²⁸⁵ Since further research will not move the works into one of the other categories, the HEAR Fund's research aspect is negligible. The compensation for these works can be discounted and serve as a floor bid for illiquid assets.

Depending on the art's historical importance and other qualities, the Fund can monetize the work as discussed below.

2. Expanding the Reach of the Fund

The high-end auction and museum market is a good starting point for the HEAR Fund. However, the HEAR Fund's overall mission is removing Nazi-looted art from the market and restituting as many artworks as possible. A necessary step includes making provenance research accessible and affordable to the largest possible group of possessors holding Covered Objects. The high-end auction market only captures a small fraction of Nazi-looted art or Covered Objects. Reasons for this curtailment are threshold values for accepting consignments (around \$5,000), limited sales categories, and limited clientele.²⁸⁶ Together with a requisite minimum value of the artwork to justify litigation, these barriers exclude a large section of possessors of Nazi-looted art or Covered Objects.

The HEAR Fund reaches this group by offering provenance research services. Provenance investigation by the Fund, rather than individual researchers, has several advantages.²⁸⁷ The HEAR Fund's institutional knowledge,²⁸⁸ and economies of scale will allow it to operate more economically and efficiently than an individual provenance researcher. As demonstrated, provenance research can be inefficient and cost-prohibitive for less valuable works. The HEAR Fund's distributive character and fee structure make it affordable and economical, encouraging utilization. In addition, provenance research will not be a sunk cost for the possessor if research shows that the object is Nazi-looted art or a Covered Object as the HEAR Fund will purchase and reconstitute the work as described.

285. While not addressed in this article, the Fund can be expanded, or a similar fund can be envisioned for unprovenanced antiquities.

286. Most consignments are with existing clients or solicited consignors. LEWIN, *supra* note 135.

287. Provenance research and the sharing of results have been curtailed by the Regulation (EU) 2016/679 of 27 Apr. 2016, on the Protection of Natural Persons with Regard To the Processing of Personal Data and on the Free Movement of Such Data, and Repealing Directive 95/46/EC (General Data Protection Regulation), 2016 O.J. (L 119) 1, and the respective national implementation acts. It has been suggested that the German implementation act, for example, should carve out significant privileges for data processing in provenance research. See Matthias Weller, *Kunst und Eigentum: Aktuelle Konflikte*, No. 7 ZUM 484 (2018).

288. The HEAR Fund incentivizes auction houses and museums to continue rigorous provenance research practices and allows them to monetize their efforts by selling or licensing their information and knowledge to the HEAR Fund.

If the provenance research reveals that the possessor has legal title, the HEAR Fund will issue a certificate to that effect²⁸⁹ and publicize the provenance information. To prevent information siloing, the HEAR Fund's records will be available and accessible.²⁹⁰ The Fund will require warranties from the possessor to disclose the received provenance information and the legal title certificate in future sales. The certificates—combined with the emerging blockchain registration of provenance permeating the art market—will create a sustainable information infrastructure. The importance and use of these certificates will increase over time, and the HEAR Fund must protect itself and insure against changing circumstances and mistakes.

As outlined, the HEAR Fund sufficiently incentivizes all possessors of Nazi-looted art and Covered Objects to come forward and have their artwork investigated. First, in cases of clear provenance, the possessor receives documentation showing that he is the owner and can monetize this information in a sale. Suppose the work turns out to be Nazi-looted art. Without the HEAR Fund, the possessor is stuck in a zero-sum duopoly. He can reconstitute the work and suffer financial loss. Alternatively, he can keep the work, an illiquid asset, and suffer reputational damage. The HEAR Fund allows him to do the right thing by restituting the work and compensates him for giving up possession. The third benefit is that restitution removes the cloud from the title and eliminates problematic works from the market. Following the restitution, the artwork enters the stream of commerce with legal title.

D. HEAR FUND PROCEDURES

Ideally, members of The Presidential Advisory Commission on Holocaust Assets, including its research staff,²⁹¹ will be part of the HEAR Fund enabling it to tap into and take advantage of existing expertise and knowledge. Following the criteria established by the Court of Arbitration for Art for its arbitrators and mediators,²⁹² the HEAR Fund will include private practice lawyers, judges, and law professors with significant experience in the chain of title of art or cultural property (including heritage/patrimony/restitution) and art transactions via private sales or auctions. The HEAR

289. See *infra* Part III.D. For existing certifications, see Artory, offering certificates to use as anonymous evidence of ownership during transactions, *How it Works*, ARTORY, <https://www.artory.com/how-it-works> [<https://perma.cc/TJB6-PJNT>] [<https://web.archive.org/web/20221017201942/https://www.artory.com/how-it-works>] (last visited Nov. 1, 2022), and The Art Loss Register, *Search*, ART LOSS REGISTER, <https://www.artloss.com/search> [<https://perma.cc/BF77-RB4R>] [<https://web.archive.org/web/20221017202156/https://www.artloss.com/search>] (last visited Nov. 1, 2022).

290. This may necessitate contractual provisions requiring the possessor who gets to take advantage of the discounted fee to consent to disclosure requirements.

291. The research staff are Helen Junz, Marc Masurovsky, and Dr. Jonathan Petropoulos. PRESIDENTIAL ADVISORY COMM'N ON HOLOCAUST ASSETS IN THE U.S. RSCH. STAFF, <https://govinfo.library.unt.edu/pcha/researchstaff.htm> [<https://perma.cc/K9WU-HZVF>] [<https://web.archive.org/web/20221017202251/https://govinfo.library.unt.edu/pcha/researchstaff.htm>] (last visited Nov. 1, 2022).

292. *CAfA Pool of Arbitrators*, CAFA, <https://www.cafa.world/arbitration/pool> [<https://perma.cc/9ERD-RTC3>] [<https://web.archive.org/web/20221017202528/https://www.cafa.world/arbitration/pool>]; *Arbitration*, CAFA, <https://www.cafa.world/arbitration/arbitrators> [<https://perma.cc/8R6H-3EN9>] [<https://web.archive.org/web/20211028052448/https://www.cafa.world/arbitration/arbitrators>].

Fund will not be limited to U.S. members but consists of an international panel of art historians, historians, and jurists to add impartiality and market credibility.

To comprehensively address inefficiency and liquidity in the market, the HEAR Fund must be transparent, public, and indefinite. The main shortcomings of previous restitution mechanisms were insufficient registration and statute of limitations. Time restrictions on the resolution of Nazi-looted art only prolong the adverse effects on the art market, current possessors, and original owners. The HEAR Fund will benefit and build on existing experience and efforts. Lessons learned from national spoliation committees and the Gurlitt Task Force²⁹³ show that a robust, comprehensible, and transparent decision-making process is essential for justice. Confidential decisions in sealed settlements and alternative dispute resolution do not promote predictability and justice. A strong fact-finding role of the HEAR Fund is essential. “If the fact-finding activity of the institutions takes place with full impartiality and independence, this is a fair and efficient way of dealing with problems of insufficient evidentiary support.”²⁹⁴

Current possessors are incentivized to share essential information or documentation in their possession as there is no downside to sharing this information. If it is “bad” news, i.e., the work is indeed Nazi-looted art, the possessor is compensated. If it is “good” news, i.e., the work is not Nazi-looted art, the HEAR Fund issues an ownership certificate, enhancing the work’s value and facilitating future sales.

The HEAR Fund builds on earlier suggestions in the literature,²⁹⁵ calling for an international tribunal²⁹⁶ or mediation/arbitration commission²⁹⁷ and legally binding international agreements.²⁹⁸ In 2001, the Presidential Advisory Commission’s final report on Holocaust Assets in the United States²⁹⁹ recommended establishing a

293. The Schwabing Art Trove Taskforce was set up in November 2013 following the discovery of a large number of artworks in possession of Cornelius Gurlitt, the son of the art dealer Hildebrand Gurlitt, a member of the Commission for the Exploitation of Degenerate Art. See generally *Gurlitt Provenance Research Index*, GERMAN LOST ART FOUND., <https://www.kulturgutverluste.de/Webs/EN/ProjectGurlitt/Gurlitt-Provenance-Research/Index.html> [https://perma.cc/7N6V-ZJWD] [http://web.archive.org/web/20221017202705/https://www.kulturgutverluste.de/Webs/EN/ProjectGurlitt/Gurlitt-Provenance-Research/Index.html]. As of December 28, 2018, the task force had reviewed all 1,039 items in the Gurlitt Provenance Research Project. The task force employed a traffic light system for its review. It consulted relevant literature, requested information from museums, and released a list of archives it contacted. Despite the impressive number of 109 archives and the high caliber of members on the task force, 650 of the 1039 works reviewed are currently labeled yellow, i.e., “Provenance during the period between 1933 and 1945 is not entirely clear; there are gaps in the provenance.” As of March 19, 2019, seven works had been restituted. Only twenty-eight works had been cleared as green—i.e., “proven or highly likely not to be Nazi-looted art.” Hans Das, *Claims for Looted Cultural Assets: Is There a Need for Specialized Rules of Evidence*, in *RESOLUTION OF CULTURAL PROPERTY DISPUTES* 193, 224 (Permanent Court of Arbitration/Peace Palace Papers, V. 7, Kluwer Law International (1st ed. 2003)).

294. Das, *supra* note 293, at 248.

295. See generally CHRISTA ROODT, *PRIVATE INTERNATIONAL LAW, ART AND CULTURAL HERITAGE* 227 (Edward Elgar Publishing 2015) for an overview.

296. See generally Jennifer Anglim Kreder, *Reconciling Individual and Group Justice With the Need for Repose in Nazi-Looted Art Disputes: Creation of an International Tribunal*, 73 *BROOK. L. REV.* 155 (2007).

297. See generally Pell, *supra* note 23.

298. See generally Kelly Ann Falconer, *When Honor Will Not Suffice: The Need for a Legally Binding International Agreement Regarding Ownership of Nazi-Looted Art*, 21 *U. PA. J. INT’L ECON. L.* 383, 424–26 (2000).

299. PRESIDENTIAL ADVISORY COMM. ON HOLOCAUST ASSETS IN THE U.S., *PLUNDER AND RESTITUTION: THE U.S. AND HOLOCAUST VICTIMS’ ASSETS* (Dec. 2000), <https://govinfo.library.unt.edu/>

foundation to promote education and research. As a neutral third-party institution, the HEAR Fund achieves many of the previously proposed objectives from the bottom up instead of waiting for ambitious, complex, and time-consuming comprehensive legislative changes or international agreements. The potential downside of voluntary participation becomes an asset. Incentives and voluntariness are attractive to market actors, thus encouraging participation. Through its acceptance in the marketplace, the HEAR Fund will establish itself as the exclusive means of resolving Nazi-looted art issues.

Under standard rules applicable to claims commissions and international tribunals, the HEAR Fund will enjoy significant freedom in weighing the evidence before it.³⁰⁰ The rights and interests of the current possessor are protected by compensating the relinquishment of possession. Evidence standards can therefore be more relaxed than those typically applicable in litigation. The HEAR Fund can rely on presumptions and inferences.³⁰¹ Allowing the Fund to draw inferences, such as finding that the facts “make the charge probable with the assistance of reasoning,”³⁰² is a useful tool based on the difficulty or impossibility of producing provenance evidence. Numerous countries have appointed commissions to investigate the relevant period,³⁰³ and additional independent historical research established the patterns and procedures employed in the looting of art.

These findings are public and allow for presumptions upon which the HEAR Fund can rely. Ownership determinations are made solely on the merits to reach final and sustainable solutions. As case law shows, applying limitation statutes and laches³⁰⁴ can lead to marketable title. However, the market does not necessarily accept a court’s decision when it comes to artworks.³⁰⁵

pcha/PlunderRestitution.html/html/Recommendations.html [https://perma.cc/WLF6-3ZJU] [http://web.archive.org/web/20221017202819/https://govinfo.library.unt.edu/pcha/PlunderRestitution.html/html/Recommendations.html].

300. Das, *supra* note 293, at 224.

301. A presumption is a “conclusion drawn from known facts about unknown facts.” *Id.* at 235.

302. *Id.* at 237.

303. See, e.g., *Bergier Commission: Independent Commission of Experts Switzerland, Second World War (ICE)*, LOOTED ART, <https://www.lootedart.com/infobycountry> [https://perma.cc/KY8P-8UQT] [https://web.archive.org/web/20221013172124/https://www.lootedart.com/infobycountry], (last visited Oct. 13, 2022). See also *Information by Country*, LOOTED ART, <https://www.lootedart.com/MFEU4O92059> [https://perma.cc/MV2F-Z3EF] [https://web.archive.org/web/20221013172348/https://www.lootedart.com/MFEU4O92059], (last visited Nov. 1, 2022) (compiling links to information from numerous countries that participated in the 1998 Washington Conference on Holocaust-Era Assets).

304. For discussion of statutes of limitations and equitable defenses, see generally Lawrence M. Kaye, *Looted Art: What Can and Should Be Done*, 20 CARDOZO L. REV. 657 (1998); Steven A. Bibas, *The Case Against Statutes of Limitations for Stolen Art*, 103 YALE L.J. 2437 (1993); and Lauren F. Redman, *A Wakeup Call for a Uniform Statute of Limitations in Art Restitution Cases*, 15 UCLA ENT. L. REV. 203 (2008).

305. Patricia Cohen, *Ruling on Artistic Authenticity: The Market vs. the Law*, N.Y. TIMES (Aug. 5, 2012), <https://www.nytimes.com/2012/08/06/arts/design/when-judging-arts-authenticity-the-law-vs-the-market.html> [https://perma.cc/F5EU-UWVH] [https://web.archive.org/web/20230106181956/https://www.nytimes.com/2012/08/06/arts/design/when-judging-arts-authenticity-the-law-vs-the-market.html]; Valerie Medelyan, *Saws Who?: The Futility of Authenticating Art in the Courtroom*, 36 HASTINGS COMM. & ENT. L.J. 1 (2014).

Scholars focused on the original owners' obligation to register Nazi-looted art on a looted art database³⁰⁶ neglect to acknowledge important distinctions between Nazi-looted art and stolen art. First, art market actors, such as auction houses or museums, based on the institutional knowledge of Nazi-looted art, in most cases have superior information compared to the original owner or his heirs.³⁰⁷ Secondly, the argument that such a requirement encourages the owner to take better precautions to deter theft is not applicable in the Nazi-looted art context.

The HEAR Fund achieves solution uniformity by focusing on the original dispossession, including forced sales,³⁰⁸ and disregarding certain lock jurisdictions.³⁰⁹ It creates consistent solutions and achieves legal egalitarianism through uniform standards regardless of a particular work's trajectory. Treating equal situations in the same manner ensures equality in the restitution of Nazi-looted art. It allows for cohesive decisions regardless of whether the object went through title laundering or whether the current possessor holds the object in Italy or the United States. Rigorous documentation of the provenance research and results³¹⁰ makes it verifiable and avoids duplication.

The voluntariness of the possessor's participation and compensation for Nazi-looted art or a Covered Object eliminates or mitigates potential hardship imposed on the current possessor by the procedures. Visibility of the provenance research and the ownership certificate for the current possessor, if the work is cleared, provide significant benefits to the marketplace in the form of economic efficiency and fairness.³¹¹ The ownership certificate can draw on the existing framework of title insurance policies for artworks and existing Torrens practices.

E. FUNDING THE HEAR FUND

The HEAR Fund will provide an efficient and just solution to possessors who seek information. Provenance as public good requires subsidies. This Article outlines various possible financing mechanisms without setting forth a fully formed model. A combination of two or more will likely be the HEAR Fund's most sustainable income resource. The HEAR Fund will also minimize risk by obtaining co-insurance from a large re-insurer in the marketplace.

306. See generally Ralph E. Lerner, *The Nazi Art Theft Problem and the Role of the Museum: A Proposed Solution To Disputes Over Title*, 31 NYU J. INT'L L. & POL. 15 (1998); Redman, *supra* note 304.

307. Dealers with well-documented records of their inventory, such as Paul Rosenberg and Jacques Goudstikker, are the exception to the general rule.

308. There is no clarity on how courts and the market treat forced sales, which creates inconsistency and uncertainty.

309. Some jurisdictions end up functioning as "locks," which ultimately clean title and determine the legal significance of a transaction. Roodt, *supra* note 295, at 30.

310. See Weller, *supra* note 278, at 484 (proposing ways to document provenance within GDPR framework).

311. See Burton, *supra* note 116, at 582.

1. Fees

Typically, fees bear a correlation to the services provided. The underlying assets' value is a possible correlation, similar to commission-based fees. Hourly-based compensation ties the fee to the difficulty of the assigned task or the time necessary to complete it. Provenance research is complex and resource-intensive, and fees must reflect the HEAR Fund's distributive role.

The HEAR Fund's most direct and obvious revenue avenue is a user-based fee for its provenance research service. However, the user fee needs to be low enough to attract the desired audience of Nazi-looted art or Covered Object possessors and make the service appealing to that demographic and, therefore, will not be cost-covering.

As discussed earlier, certain auction houses and museums already conduct their own (extensive) provenance research. The research is a sunk cost if the consignment or donation is ultimately declined due to title issues, aside from the credibility and goodwill created for accepted works.

Like fees charged to a seller of an unsold lot, auction houses and museums can charge a universal research fee unrelated to the acceptance of the work. The provenance research fee for all examined works can be a fixed amount or a percentage payable by the seller unless the work sells at auction, at which point the fee can be imposed on the buyer. Similarly, a museum can charge every donor a provenance research fee for objects offered for donations, regardless of whether the donation is accepted or rejected. This fee can be offset for successful donations against a possible provenance research tax discussed *infra* at Part III.E.2.

A provenance research fee is an insurance principle removing the burden of loss from the individual possessor of Nazi-looted artwork and distributing it across the entire class of artwork sellers or donors. Auction houses and museums are incentivized to support the HEAR Fund with a provenance research fee based on the benefits and savings it provides to the market.³¹²

2. Taxes

As compulsory fees levied on specific subjects, taxes typically finance government activities. The U.S. government has documented its commitment to the restitution of Nazi-looted art through several pieces of legislation. The U.S. Holocaust Assets Commission Act of 1998, in particular, allocated funds to further this goal.³¹³ The government incentivizes art donations to museums by allowing deductions at the

312. Auction houses similarly funded the Art Loss Register. See Lucian J. Simmons, *Provenance and Auction Houses*, in RESOLUTION OF CULTURAL PROPERTY DISPUTES, *supra* note 156, at 93 ("In June 1998, together with Aon Insurance, Sotheby's took the decision to lead the financial sponsorship of the Art Loss Register's (ALR) Holocaust Initiative to enable all Holocaust claims to be registered on the ALR database free of charge. As a result, since 1998, Sotheby's worldwide catalogs have been reviewed by the ALR, both in respect of recently stolen property, and art seized during the Holocaust.").

313. The Presidential Advisory Commission on Holocaust Assets in its Final Report favored using tax-deductible donations to fund a federal foundation to research the provenance of Nazi-looted art and Covered Objects. See PRESIDENTIAL ADVISORY COMM., *supra* note 291.

appraised market value at the time of the donation.³¹⁴ Imposing a provenance tax on this constituency is a reasonably targeted and tailored approach.

The donor's compensation is a deduction against his taxable income. This deduction can be reduced by a certain percentage amount, earmarking the additional tax revenue earned through the reduction for the HEAR Fund. To encourage the HEAR Fund's use for provenance research and increase the legal title certificate's utility, works with such a certificate can receive a higher deduction.³¹⁵

Fund revenue from U.S. taxes can be segregated from other fund income and reserved for compensation of U.S. possessors. Alternatively, the HEAR Fund can operate as a non-governmental organization with government funding sourced from the reduced deduction.

3. Other Income

Provenance research resources and grants currently allocated to specific museums can be allocated more efficiently to the HEAR Fund. Examples of public-private collaboration and funding abound in the restitution arena. For example, following pressure from class-action lawsuits filed in the United States seeking financial compensation for former slave and forced laborers, the German government and industry established the Remembrance, Responsibility, and Future Foundation.³¹⁶ The foundation entered into a settlement with the claimants primarily financed by industry contributions. A conglomerate of arts-related and Holocaust survivor-related charitable foundations and federal agencies funded the Nazi-Era Provenance Internet Portal.³¹⁷

The HEAR Fund is well-placed to receive financial support from European governments and non-governmental organizations like the World Jewish Congress Commission for Art Recovery. Another revenue source could be lottery proceeds³¹⁸ allocated to the HEAR Fund.

314. See generally JOHN E. CONKLIN, *ART CRIME* 21 (Praeger 1994). Tax laws and the Internal Revenue Service in the United States determine the value of artworks for estate tax purposes and in the context of tax deductions granted when they are donated. Federal tax law between 1952 and 1986 drew more collectors into the market, and with increased competition, the prices in the market also increased. Until 1986, donors could hold on to their art during their lifetime and "claim a federal tax deduction based on the market value of the art at the time they donated it, even if that amount was significantly more than they had originally paid." *Id.* The 1986 Tax Reform Act altered this and was a considerable disincentive to donations in the United States. Yielding to the museum lobby, Congress enacted a temporary change that reinstated the prior practice of allowing deductions at the appraised market value at the time of donation. This modification was made permanent by a tax law signed by President Clinton in 1993. *Id.*

315. See Burton, *supra* note 116, at 593 for intended consequences. This might be double-dipping—if the certificate increases the fair market value, the deduction is already increased.

316. See REMEMBRANCE, RESPONSIBILITY AND FUTURE FOUND., <https://www.stiftung-evz.de/en> [<https://perma.cc/E6VL-GS5A>] [<https://web.archive.org/web/20221013185523/https://www.stiftung-evz.de/en>] (last visited Nov. 1, 2022).

317. See NAZI-ERA PROVENANCE INTERNET PORTAL, <http://www.nepip.org> [<https://perma.cc/9J9W-9GLJ>] [<https://web.archive.org/web/20221013185942/http://www.nepip.org>] (last visited Nov. 1, 2022).

318. See *About Us*, N.Y. LOTTERY, <https://nylottery.ny.gov/about-us> [<https://perma.cc/Z7VD-YWW6>] [<https://web.archive.org/web/20221013185657/https://nylottery.ny.gov/about-us>] (last visited

The HEAR Fund could generate income by loaning acquired but unrestituted works to museums, corporations, or even private collectors for a fee. The loans can be structured as renewable short-term loans or include a recall provision if the original owner is identified. Exhibitions could include the HEAR Fund's entire collection or curated smaller, more targeted exhibits displaying works by a specific artist or theme. Such exhibitions could travel and charge entry fees. Pro bono joint ventures with, for example, an art fair donating exhibition space to the HEAR Fund are an attractive option. Similarly, museums can donate temporary exhibition space to aid efforts to find original owners.³¹⁹ The possibilities of arranging exhibitions with private dealers, auction houses, universities, and charitable organizations to make the works accessible to a larger public and generate revenue for the HEAR Fund are endless.

A certificate for heirless Nazi-looted art would make the works marketable again, allowing them to be sold subsequently and legitimately enter the market.³²⁰ Defining this category ex-ante is difficult as a practical matter. It essentially imposes a statute of limitations on the HEAR Fund's provenance research for acquired objects. Contractual safeguards can protect claimants surfacing after the sale. The HEAR Fund could use call options³²¹ to repurchase work at the purchase price for restitution. Alternatively, the purchase can be structured as a long-term loan with a later purchase option.³²²

The value of restituting artwork to the original owner may far exceed the artwork's monetary value – not every work is worth millions of dollars. The HEAR Fund's mission includes the capture and restitution of lower-value Nazi-looted art for which litigation is too costly.

Nonetheless, some Nazi-looted art is highly valuable, and restituting a multi-million dollar work of Nazi-looted art can quickly wipe out the HEAR Fund's resources. In addition to the co-insurance mentioned above, the HEAR Fund could issue Masterpiece Bonds, a high-yield debt instrument similar to a catastrophe bond (cat bond), to raise money in the case of the buy-out and restitution of a high-value Nazi-looted artwork. The Masterpiece Bond transfers risk from the HEAR Fund to the financial markets. As the risk carrier, the HEAR Fund enters into an insurance agreement with a company formed for this purpose, known as a special purpose vehicle (SPV). Bondholders invest and provide capital to the SPV in return for interest. Defined trigger events establish the conditions under which the HEAR Fund, as the issuer, receives a deferral or forgiveness of the principal's repayment.

Nov. 1, 2022), ("contributing \$3.59 billion in Lottery Aid to Education for FY2020-2021 to help support education in New York State").

319. See Birgit Katz, *The Louvre Puts Nazi-Looted Art in Public Eye in Effort to Find Rightful Heirs*, SMITHSONIAN MAG. (Feb. 13, 2018), <https://www.smithsonianmag.com/smart-news/louvre-launches-new-galleries-nazi-looted-art-180968130> [<https://perma.cc/MGZ6-AMCV>] [<https://web.archive.org/web/20221013190412/https://www.smithsonianmag.com/smart-news/louvre-launches-new-galleries-nazi-looted-art-180968130>].

320. This can mirror existing processes for the sale of heirless assets, with the proceeds benefitting holocaust survivors.

321. In return for the call right, the buyer can receive a discount on the purchase price.

322. The time period can be determined following the time frames for copyright protection or some other formula.

A claim for Nazi-looted artwork worth more than X million USD can be a defined trigger. A Masterpiece Bond essentially insures the unknown based on actuarial risk and probability models similar to a cat bond. Financial markets have modeled hurricane risks and issued cat bonds for a decade.³²³ There is no reason sophisticated actuarial analysis cannot be applied to the art market. Some art market actors, such as art lenders and insurers, operate proprietary databases conducting sophisticated analyses of public auction data. Models for the risk of Nazi-looted artwork exceeding a certain monetary threshold may not exist. However, this does not mean that appropriate experts cannot build them, given access to the relevant information.

IV. CONCLUSION

This Article contributes to the restitution debate by exposing the current methodology's systemic information and liquidity defects. It examines information asymmetries and uncertainty and shows that it is inefficient for the buyer, the seller, or the original owner to conduct the necessary provenance research to eliminate the information deficits. Its final contribution is the proposed creation of a fund that removes Nazi-looted art from the market, provides informational efficiency, and restitutes Nazi-looted artworks to the original owners. The HEAR Fund has two components: a database and efficient information infrastructure for provenance research and the acquisition and restitution of Nazi-looted art to remove artwork without legal title from the market. By restoring legal title through restitution or the discussed certificate, the HEAR Fund acts as quality assurance for the art market and restores liquidity to Nazi-looted art and Covered Objects. The Fund does not address or eliminate all obstacles facing original owners or their heirs in their quest for restitution. However, it removes several impediments by consolidating Nazi-looted art in one location, allowing the database and the restitution process to profit from institutional knowledge and economy of scale. The HEAR Fund enables the U.S. government to implement its long-standing executive policy regarding the restitution of Nazi-looted art. It is distributive in its cost allocation by employing multiple financing mechanisms across a broader demographic instead of making the current possessor or the original owner the cost bearer.

The HEAR Fund encourages auction houses and museums to continue their rigorous provenance research practices and allows them to monetize their efforts by selling or licensing their information and knowledge to the HEAR Fund. It incentivizes Nazi-looted art possessors to come forward by compensating them for work purchased by the Fund. Voluntary participation combined with compensation increases the HEAR Fund's market credibility. And last but not least, it brings justice to the original owners who benefit from the HEAR Fund's institutional knowledge and uniform decision-making as the central repository for Nazi-looted art.

323. See Harry White, *Modeling Fundamentals: So You Want To Issue a Cat Bond*, VERISK, <https://www.air-worldwide.com/Publications/AIR-Currents/2016/Modeling-Fundamentals-So-You-Want-to-Issue-a-Cat-Bond> [https://perma.cc/9FWA-NEB9] [https://web.archive.org/web/20221013190958/https://www.air-worldwide.com/publications/air-currents/2020/modeling-fundamentals-so-you-want-to-issue-a-cat-bond] (last visited Nov. 1.2022) (Figure 1, illustrating the number of new cat bond issuances by year).

Fair Use in the Rag Trade: In Defense of the Fashion Industry’s Casual Appropriation of Artwork

Chantalle R. Forgues^{*}

TABLE OF CONTENTS

Introduction.....	187
I. Fashion Is Art	191
II. The Fashion Industry’s Historic Appropriation of Art.....	193
III. The Legal Framework of Copyright Infringement as Applied to Art Appropriation.....	199
A. The Right of Fair Use	199
1. The Purpose and Character of the Use	201
2. The Nature of the Copyrighted Work.....	201
3. The Amount and Substantiality of the Portion of Work Used.....	202
4. The Effect on the Potential Market for the Copyrighted Work	202
B. Fair Use of Appropriated Art	204
IV. Fair Use and High Fashion.....	209
A. Appropriative High Fashion Is Inherently Fair Use	209
1. Fashion Creations Are Inherently Transformative	210
2. Fashion Does Not Impact the Market for Other Art.....	213
3. The Transformative Character of Fashion Outweighs the Other Factors of the Fair Use Analysis	214
B. Toward Legal Clarity	215

INTRODUCTION

Throughout history, the concept of appropriation has been understood as an act by which an interloper takes the work of another without consent and uses it for a different, typically self-serving, purpose. This concept, however, has become increasingly misapplied by courts in the context of art, and is particularly flawed when applied to fashion art. Recent federal case law purporting to clarify the appropriation

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doctrine for the art world has only served to muddle it further, as judges have struggled to make determinations on issues of artistry. As such, the existing rules are not only muddy, but also specious, when related to fashion. This Article analyzes the weaknesses in the current judicial framework governing art appropriation and demonstrates why the existing framework should not apply to fashion as a unique and transformative form of art.

When France and parts of Italy banned Marithé+François Girbaud's appropriation of Leonardo da Vinci's "Last Supper" in its advertising campaign (Figure 1), it was not because of any ostensible copyright violation. Rather, the advertisements were banned because they made offensive use of religious symbolism.¹ While Marithé+François Girbaud argued that the female version of the fresco showed "the place of women in society today, which is a reflection of our changing values," a French judge ruled that it presented "a gratuitous and aggressive act of intrusion of people's innermost beliefs."² Apparently everyone forgot that the advertisement was based on a painting, and not the Bible. No one seemed to care about whether the advertisement was a transgression against da Vinci. In fact, one might recognize the piece as an extraordinary transformation of his work.



Figure 1. Marithé+François Girbaud advertisement, 2005.³

In the same vein, there were no concerns about copyright infringement when Yves St. Laurent appropriated Piet Mondrian in creating his iconic Mondrian dress (Figure 2). This is because art appropriation is recognized as a valid, and valuable, artistic endeavor itself. Respected appropriation artists such as Andy Warhol, Sherrie Levine,

1. Irene Peroni, *Milan Bans 'Blasphemous' Poster*, BBC NEWS (Feb. 4, 2005, 17:37 GMT), <http://news.bbc.co.uk/2/hi/europe/4236499.stm> [<https://perma.cc/KP8L-VVGC>] [<https://web.archive.org/web/20221102123105/http://news.bbc.co.uk/2/hi/europe/4236499.stm>]; *Holy Unethical*, VOGUE UK (Mar. 16, 2005), <https://www.vogue.co.uk/article/holy-unethical> [<https://perma.cc/UE7L-8YFU>] [<https://web.archive.org/web/20221014231250/https://www.vogue.co.uk/article/holy-unethical>]. Given its age, the "Last Supper" is now in the public domain, with no copyright protections.

2. *Id.*

3. Marithé+François Girbaud Advertisement (photograph), in Jenna Sauers, *A History of Fashion's Appropriation of Art [NSFW]*, JEZEBEL (June 22, 2011), <https://jezebel.com/a-history-of-fashions-appropriation-of-art-nsfw-5814196> [<https://perma.cc/83U3-HM2G>] [<https://web.archive.org/web/20221102124600/https://jezebel.com/a-history-of-fashions-appropriation-of-art-nsfw-5814196>].

and Richard Prince have created famously provocative works of art by using the work of others.⁴ Many in the fashion industry likewise embrace art appropriation in their own works, as well as in the advertising of them (Figure 3).



Figure 2. Piet Mondrian, *Composition with Red, Yellow and Blue*, 1921, and Yves St. Laurent's *Mondrian Dress*, 1965.⁵



Figure 3. Georges de la Tour, *La Madeleine à la veilleuse*, 1640, and Christian Louboutin's Fall 2011 Lookbook.⁶

Mary Magdalene is no longer contemplating death;
rather, she is contemplating shoes.

4. Of course, Salvador Dalí famously said, "Those who do not want to imitate anything, produce nothing." *Les Chants de Maldoror*, FLA. STATE UNIV. MUSEUM OF FINE ARTS, <https://mofa.fsu.edu/wp-content/uploads/sites/3/2018/08/Salvidor-Dali-final.pdf> [<https://perma.cc/B5WL-A4YF>] [<https://web.archive.org/web/20220302101059/https://mofa.fsu.edu/wp-content/uploads/sites/3/2018/08/Salvidor-Dali-final.pdf>] (last visited Nov. 30, 2022).

5. Piet Mondrian, *Composition with Red, Yellow and Blue* (painting), and Yves St. Laurent, *Mondrian Dress* (photograph), in *Vintage Inspiration: YSL's Mondrian Dress*, JOUR À NUIT (Mar. 18, 2015), <http://alwayslatee.blogspot.com/2016/04/friday-inspiration-mondrian-art-in.html> [<https://perma.cc/5ANM-YW7B>] [<https://web.archive.org/web/20230317071945/https://jouranuit.wordpress.com/2015/03/18/vintage-inspiration-ysls-mondrian-dress/>].

6. Georges de la Tour, *La Madeleine à la veilleuse* (painting), and Christian Louboutin, Fall 2011 Lookbook (photograph), in Sauer, *supra* note 3.

As discussed more thoroughly in Part I of this Article, fashion itself is art, and fashion artists have created truly remarkable pieces by appropriating others' artworks. Take, for example, L'Wren Scott's transformation of Gustav Klimt's *Hygieia* (Figure 4). Scott appropriated the original work from a fragment of Klimt's painting, *Medicine*, which is one of a series of paintings on the ceiling of University of Vienna's Great Hall.⁷ The splendor of this artistic appropriation is undeniable.



Figure 4. A fragment of Gustav Klimt's *Medicine*, 1901, and L'Wren Scott, *Hygieia* gown, Autumn/Winter 2013.⁸

Lately, however, United States federal courts have sought to limit art appropriation. Recent rulings from within the United States Court of Appeals for the Second Circuit ("Second Circuit") have prohibited artists such as Richard Prince and the foundation representing Andy Warhol from using the fair use defense to claims of appropriation, or more specifically, copyright infringement.⁹ By rendering artists' works indefensible as such, courts threaten to stifle artistic creation, including beautifully inspired fashion works like those created by L'Wren Scott. These rulings may create a chilling effect on the fashion industry and would deny the world the benefit of some of the most superb works of art that fashion artists create.

7. Dulcie Horn, *Art as Fashion—L'Wren Scott & Aquilano Rimondi Do Gustav Klimt*, LA DULCIE VITA (Oct. 17, 2013), <http://www.dulciedulcie.com/2013/10/art-as-fashion-lwren-scott-aquilano.html> [https://web.archive.org/web/20220701142515/http://www.dulciedulcie.com/2013/10/art-as-fashion-lwren-scott-aquilano.html].

8. Gustav Klimt, *Medicine*, and Photograph of L'Wren Scott's *Hygieia* gown in the Autumn/Winter 2013 collection (photograph), *in id.*

9. See *Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith*, 992 F.3d 99, 117 (2d Cir. 2021) (citation omitted) [hereinafter *Warhol*] and *Cariou v. Prince*, 714 F.3d 694, 705 (2d Cir. 2013).

In this Article, I will argue that the existing legal framework governing art appropriation is overly restrictive and should be relaxed, particularly as applied to the fashion industry. The increasingly prohibitive common law governing the fair use doctrine is contrary to public policy intended to support the continuing inspiration of artists in our society, as specifically charged by the United States Constitution. Accordingly, Part I of this Article demonstrates that fashion is art, both culturally and legally. In the same vein, Part II illustrates how fashion has historically made uniquely transformative creations when borrowing from other works of art which, as explained in Part III, must be supported. In Part III, I examine the legal framework surrounding copyright law and the right artists have to use others' works fairly. I conclude with a discussion of the fair use doctrine as applied to fashion in Part IV and entreat courts to recognize the inherently transformative nature of appropriative fashion. Courts should interpret the fashion industry's right to fair use liberally, so as to follow, rather than thwart, the directive of the United States Constitution to "promote the Progress of . . . Art[]."10

I. FASHION IS ART

"Art," as defined by the Oxford English Dictionary, is the "expression or application of creative skill and imagination," that is typically in visual form and produced "to be appreciated primarily for [its] beauty or emotional power."¹¹ Certainly then, L'Wren Scott's *Hygieia* gown is "art." Scott's gown is a visual expression of creative skill and imagination that is appreciated for its beauty and emotional evocation of the goddess of health, which fits squarely within the definition of art. The piece is like a sculpture for the human body.

Gallerist Georges Berges writes that "fashion is one of the purest expressions of art because it is *art lived* on a daily basis."¹² Berges likens fashion as performance art incarnated by a model.¹³ Art critic Richard Martin explains that the criteria for great fashion designers are the same for other great visual artists: "the great designers like Balenciaga really let the cloth speak—in the same way that Morris Louis lets the paint speak."¹⁴ The artistic process is the same as the process for making fashion.¹⁵

The ubiquitous fashion exhibits displayed in prominent museums confirm that fashion is art.¹⁶ One cannot deny that fashion is art after seeing the native Tlingit hair

10. U.S. CONST. art I, § 8, cl. 8.

11. *Art*, OXFORD EN. DICTIONARY ONLINE, <https://www.oed.com/view/Entry/11125> [<https://perma.cc/HF24-UAKU>] [<https://web.archive.org/web/20221209172156/https://www.oed.com/start%3Bjsessionid%3D1C9FCE8732C228E6911855D9879DAF12?authRejection=true&url=%2Fview%2FEntry%2F11125>] (last visited Dec. 9, 2022).

12. Georges Berges, *In Defense of Fashion as a True Art Form*, OBSERVER (June 20, 2017, 7:00 AM), <https://observer.com/2017/06/fashion-true-art-form> [<https://perma.cc/DK9D-EEYH>] [<https://web.archive.org/web/20221014232608/https://observer.com/2017/06/fashion-true-art-form>].

13. *Id.*

14. Sung Bok Kim, *Is Fashion Art?*, 2 FASHION THEORY: J. OF DRESS, BODY & CULTURE 51, 57 (1998) (brackets and citation omitted).

15. *See id.*

16. *See, e.g., Roberto Capucci: Art Into Fashion*, PHILA. MUSEUM OF ART, <https://philamuseum.org/calendar/exhibition/roberto-capucci-art-into-fashion> [<https://perma.cc/8XZQ-3TJE>] [<https://web>].

ornament displayed at the American Museum of National History (Figure 5),¹⁷ or the famous *Lobster Dress* designed by Salvador Dalí and Elsa Schiaparelli (Figure 6).¹⁸ It is not only historic fashion that is displayed in museums. Current fashion is, of course, also art.¹⁹



Figure 5. Tlingit hair ornament.²⁰



Figure 6. Salvador Dalí, *Lobster Dress*, 1937.²¹

archive.org/web/20221115165948/https://philamuseum.org/calendar/exhibition/roberto-capucci-art-into-fashion] (last visited Nov. 15, 2022).

17. *Tlingit Collection*, AM. MUSEUM OF NAT'L HIST., <https://www.amnh.org/exhibitions/permanent/northwest-coast/tingit> [<https://perma.cc/DL2R-9KKB>] [<https://web.archive.org/web/20221014233652/https://www.amnh.org/exhibitions/permanent/northwest-coast/Tlingit>] (last visited Nov. 1, 2022). See generally *Woven by the Grandmothers: Nineteenth-Century Navajo Textiles from the National Museum of the American Indian*, SMITHSONIAN: NAT'L MUSEUM OF THE AM. INDIAN, <https://americanindian.si.edu/explore/exhibitions/item?id=303> [<https://perma.cc/D8E5-4VFP>] [<https://web.archive.org/web/20221014234342/https://americanindian.si.edu/explore/exhibitions/item?id=303>] (last visited Nov. 1, 2022).

18. Elsa Schiaparelli and Salvador Dalí, *Woman's Dinner Dress*, PHILA. MUSEUM OF ART, <https://philamuseum.org/collection/object/65327> [<https://perma.cc/5XMB-2SPE>] [<https://web.archive.org/web/20221014234441/https://philamuseum.org/collection/object/65327>] (last visited Nov. 1, 2022).

19. See, e.g., Press Release, Metropolitan Museum of Art, Major Retrospective of Designs of Yves Saint Laurent To Open in Metropolitan Museum's Costume Institute, <https://libmma.contentdm.oclc.org/digital/collection/p16028coll12/id/7644> [<https://web.archive.org/web/20221102135917/https://libmma.contentdm.oclc.org/digital/collection/p16028coll12/id/7644>]. This exhibition marked the first time the museum displayed the work of a living fashion designer. Nina Hyde, *YSL*, WASH. POST (Dec. 5, 1983), <https://www.washingtonpost.com/archive/lifestyle/1983/12/06/ysl/0952dbbf-dee8-479e-8019-5da58b852276> [<https://perma.cc/6MCM-6GG6>] [<https://web.archive.org/web/20221014234758/https://www.washingtonpost.com/archive/lifestyle/1983/12/06/ysl/0952dbbf-dee8-479e-8019-5da58b852276>].

20. Photograph of Tlingit Hair Ornament, in *Tlingit Collection*, *supra* note 17.

21. Photograph of *Woman's Dinner Dress*, in PHILA. MUSEUM OF ART, *supra* note 16. Dalí created this dress for American actress Wallis Simpson's infamous prenuptials in anticipation of her marriage to King Edward VIII. The marriage led to King Edward abdicating the British throne. Dalí designed the lobster to be placed between Wallis's legs with its tail fanning toward her *mons pubis*, and its claws directed towards her calves. See *id.*

Many outside of the art world also agree. Poets, sociologists, lawyers, and other diverse perspectives confirm that fashion is art. Charles Baudelaire validated that fashion is art in his celebrated poetry.²² Sociologist Elizabeth Wilson explained that fashion is “a form of visual art, a creation of images with the visible self as its medium.”²³ Where others have opined that fashion is not art,²⁴ or that fashion has simply a conjugal relationship with art,²⁵ George B. Sproles, the renowned behavioral scientist, admonished this as a “serious oversight.”²⁶ The utility and commodification of fashion may prevent such antagonists from appreciating the art.

For purposes of understanding the legal implications of appropriation, however, it is only the opinion of the United States Supreme Court that is relevant. Helpfully, the United States Supreme Court has recently resolved this inquiry, at least for copyright purposes, upon determining that fashion is a work of art when it has pictorial, graphic, or sculptural features that can be perceived separately from its usefulness.²⁷ It is now undisputed that fashion, even though it is “useful,” can be art.

II. THE FASHION INDUSTRY’S HISTORIC APPROPRIATION OF ART

Since its conception, fashion has borrowed from the work of other artists. The concept of “fashion” arguably emerged in the mid-fourteenth century, at least in Europe.²⁸ While there is little information about art appropriation by fashion designers of the Late Middle Ages, it is evident that Renaissance designers incorporated into their fashion the artistic works of ancient Greek and Roman artists as well as works made by then-contemporary artists.²⁹ In fact, Renaissance fashion frequently included ornaments, designs, and embroideries that appropriated the work of other artists throughout Europe during this period. Below, for example, is an “enseigne” or hat pin that men wore in their caps during the Renaissance period, in which the fashion maker clearly copied Lelio Orsi’s painting, “Saint George and the Dragon” (Figure 7).

22. Kim, *supra* note 12, at 53 (internal citation omitted).

23. *Id.* at 52 (citing ELISABETH WILSON, ADORNED IN DREAMS 9 (1987)).

24. *See id.* at 53–56.

25. *See* DON THOMPSON, THE ORANGE BALLOON DOG: BUBBLES, TURMOIL AND AVARICE IN THE CONTEMPORARY ART MARKET 129–36 (2017). As seen throughout this paper, they procreate beautifully.

26. *See* Kim, *supra* note 14, at 52.

27. *See* Star Athletica, L.L.C. v. Varsity Brands, Inc., 580 U.S. 405 (2017) (finding cheerleading uniform with unique arrangement of colors, shapes, stripes, and chevrons is work of art).

28. *See* JAMES LAVER, COSTUME AND FASHION: A CONCISE HISTORY 62 (4th ed. 2002).

29. *Cf.* Abigail Westover, *Influence of the Tudors*, HIST. OF COSTUME: EUROPEAN FASHION THROUGH THE AGES (Mar. 9, 2012), <https://historyofeuropeanfashion.wordpress.com/2012/03/09/influence-of-the-tudors> [<https://perma.cc/HA29-7YK2>] [[https://web.archive.org/web/20221020182603/https://](https://web.archive.org/web/20221020182603/https://historyofeuropeanfashion.wordpress.com/2012/03/09/influence-of-the-tudors)



Figure 7. Lelio Orsi, *Saint George and the Dragon*, 1550,³⁰
and “Hat Ornament” from the 16th century.³¹

It is clear that art appropriation is not simply a postmodern concept. Fashion designers from the early modern period and the modern era borrowed liberally from the work of others, both past and contemporary. And, of course, current fashion designers routinely appropriate artwork from all ages.

By way of further illustration, in the early twentieth century, Madeline Vionnet beautifully appropriated the *Winged Victory of Samothrace* from the second century BCE (Figure 8). Balenciaga’s appropriation of Deigo Velázquez’s portrait of the *Infanta’s* dress is delightful (Figure 9). When absorbing these works of art, it is easy to see how historical fashion appropriation is an important manifestation of human expression in the context of its own time as well as with respect to the present time.

30. Photograph of *Saint George and the Dragon*, in *Google Arts & Culture*, MUSEO E REAL BOSCO DI CAPODIMONTE (2021), <https://artsandculture.google.com/asset/st-george-and-the-dragon-lelio-orisi/ZQH5VlbTTRUxg?hl=en> [<https://perma.cc/BY5Q-7QCG>] [<https://web.archive.org/web/20221020182833/https://artsandculture.google.com/asset/st-george-and-the-dragon-lelio-orisi/ZQH5VlbTTRUxg?hl=en>].

31. Photograph of Hat Ornament, in *Museum Number WB.172*, THE BRIT. MUSEUM (2021), https://www.britishmuseum.org/collection/object/H_WB-172 [<https://perma.cc/L68A-5LD5>] [https://web.archive.org/web/20221020183044/https://www.britishmuseum.org/collection/object/H_WB-172].



Figure 8. The Winged Victory of Samothrace, 2nd century BCE,³² and Madeleine Vionnet, *Bas-relief Frieze Dress*, 1931.³³



Figure 9. Diego Velázquez, *Infanta Margarita*, 1654–55, and Balenciaga *Infanta dress*, 1939.³⁴

32. Photograph of *The Winged Victory of Samothrace*, in Stella Polyzoidou, *9 Times the History of Art Inspired Fashion Designers*, THE COLLECTOR (Apr. 18, 2021), <https://www.thecollector.com/9-art-history-inspired-fashion-designers> [https://perma.cc/UN98-4KC8] [https://web.archive.org/web/20221020183240/https://www.thecollector.com/9-art-history-inspired-fashion-designers] (citing LOUVRE MUSEUM).

33. Photograph of *Bas-relief Frieze Dress* by George Hoyningen-Huene for French Vogue, in *id.* (citing via Condé Nast).

34. Diego Velázquez, *Infanta Margarita* (painting) and Balenciaga, *Infanta Dress* (photograph), in Sofia Killion, *Wearing Art History: Fashion as an Art 9* (May 2018) (Senior Thesis, Dominican University of California) (citing LOUVRE MUSEUM and THE METROPOLITAN MUSEUM OF ART, respectively).

More recently, Nicholas Kirkwood transformed Keith Haring's work into his own exquisite fashion pieces, including the shoes in Figure 10. Contemporary era fashion appropriation is just as compelling, as evidenced by the several fashion artists who have been inspired by Hieronymus Bosch (Figure 11). Like their predecessors, contemporary fashion artists often pay homage to artists and art forms. For example, Italian Fashion Designer Maria Grazia Chiuri emulated the earthy simplicity of Georgia O'Keefe in her recent inaugural fashion show for Christian Dior (Figure 12). In the same spirit, the Metropolitan Museum of Art (the "Met") hosts an annual "Met Gala," which is the premier charity event in the art and fashion world. The Met conceives themes for the gala such as "Cubism and Fashion," and "Goddess: The Classical Mode"³⁵ that reveal the ultimate application of human skill and creativity in appropriative fashion. It is no surprise that during the current chaotic times, at least one fashion artist has borrowed from, and dedicated his line to, Pablo Picasso, the master of making chaos beautiful (Figure 13).

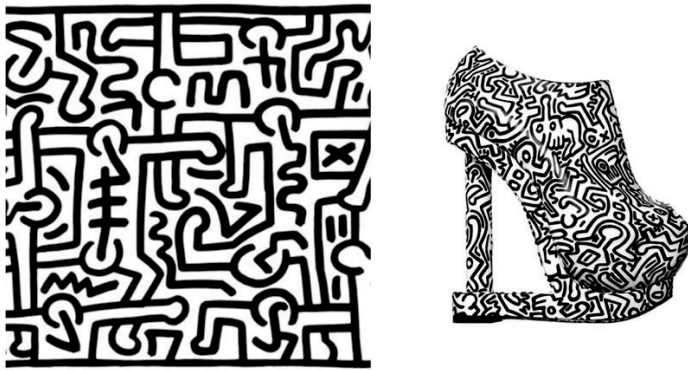


Figure 10. Keith Haring, *Untitled*, 1988, and Nicholas Kirkwood shoes, 2011.³⁶

35. *Met Gala Themes Over the Years: A Look Back at Many First Mondays in May*, VOGUE FR., (Apr. 22, 2022), <https://www.vogue.fr/fashion/article/met-gala-themes-over-the-years> [<https://perma.cc/NLK6-Z3RZ>] [[/web/20221020183743/https://www.vogue.fr/fashion/article/met-gala-themes-over-the-years](https://web.archive.org/web/20221020183743/https://www.vogue.fr/fashion/article/met-gala-themes-over-the-years)].

36. Keith Haring, *Untitled* (illustration) and Nicholas Kirkwood shoes (photograph), in Lilah Ramzi, *Shop Art*, PART NOUVEAU (Mar. 7, 2013), <http://partnouveau.com/2013/03/shop-art> [<https://perma.cc/HDR8-3XHC>] [<https://web.archive.org/web/20221020183406/http://partnouveau.com/2013/03/shop-art>].



Figure 11. Hieronymus Bosch, *The Garden of Earthly Delights*, 1480–1501 (top);
 Alexander McQueen, *Armadillo* shoes, SS 2010 (middle);
 and the horrid king figure excerpted from the bottom right panel of the triptych (bottom).
 The wine jugs on the king's feet resemble the McQueen shoes.³⁷

37. Hieronymus Bosch, *The Garden of Earthly Delights* (illustration) and Alexander McQueen, *Armadillo Shoes* (photograph), in Sauters, *supra* note 3.



Figure 12. Ansel Adams, *Georgia O'Keeffe at Yosemite* 1938,
and Christian Dior Cruise 2018.³⁸



Figure 13. Pablo Picasso, *Les Femmes d'Alger*, (1907),
and Moschino Spring/Summer 2020.³⁹

38. Photograph in Hannah Militano, *The everlasting marriage of high fashion and fine art*, CR FASHION BOOK (No. 30, 2020) [<https://www.crfashionbook.com/fashion/a34198850/everlasting-marriage-high-fashion-fine-art>] [<https://perma.cc/5PTP-A4W9>] [Wayback Machine URL is unavailable].

39. Photograph in Militano, *supra* note 38.

When fashion appropriates art, it creates some truly remarkable pieces that contribute significantly to the culture of society. Appropriative fashion reflects—and reflects upon—society. Like all art, fashion comments and criticizes. Fashion is art that is worn upon the human body, and perhaps because of this characteristic, it is a necessary and important part of human culture. As seen in the works herein, fashion is an expression of intimate creativity and carries emotional power.

Because fashion is art, the legal framework governing art appropriation applies to the fashion industry in the same way. Fortunately, the constitutional directive and policy supporting the legal framework are designed to encourage such creations. Yet currently, there is a misguided trend whereby some courts have made exceedingly broad interpretations of appropriation so as to sweep indiscriminately many artworks into the prohibitions of copyright infringement. As discussed below, such judicial decisions, which are challenged by the inherent difficulties judges have in making determinations about artistry, may stifle creative expression and deny the world some extraordinary works of fashion art.

III. THE LEGAL FRAMEWORK OF COPYRIGHT INFRINGEMENT AS APPLIED TO ART APPROPRIATION

The concept of protecting works of art from misappropriation is embodied in Article I of the Constitution, which empowers Congress to enact copyright laws “[t]o promote the Progress of Science and useful Arts.”⁴⁰ Congress exercised its authority to promote creative works by enacting the Copyright Act of 1790,⁴¹ with revisions through the Copyright Act of 1976, and subsequent amendments.⁴² In essence, copyright law endows creators of original works of art that are fixed in a tangible medium of expression with a limited monopoly over the dissemination of their works. Among other things, the Copyright Act prevents the unauthorized copying of an original work of art⁴³ and protects artists’ works from misappropriation for a limited period of time,⁴⁴ after which it is considered to be within the public domain and available for use, including copying, without restriction.

A. THE RIGHT OF FAIR USE

Copyright protection does not provide “an inevitable, divine, or natural right that confers on authors the absolute ownership of their creations. It is designed rather to stimulate activity and progress in the art for the intellectual enrichment of the public.”⁴⁵ The doctrine of “fair use” is “necessary to fulfill that very purpose” to promote art.⁴⁶ Recognizing that “excessively broad protection would stifle, rather than advance, the

40. U.S. CONST. art I, § 8, cl. 8.

41. Copyright Act of 1790, 1 Stat. 124 (1790).

42. Copyright Act of 1976, 17 U.S.C. §§ 101–1401 (2021).

43. *Id.* §§ 101–205.

44. Copyright protections typically extend for the life of the work’s creator plus seventy years after the creator’s death. *Id.* § 302.

45. *Cariou v. Prince*, 714 F.3d 694, 705 (2d Cir. 2013) (citation omitted).

46. *Id.* (citation omitted).

law's objective,⁴⁷ the fair use doctrine “mediates between the property rights copyright law establishes in creative works, which must be protected up to a point, and the ability of authors, artists, and the rest of us to express them—or ourselves by reference to the works of others, which must be protected up to a point.”⁴⁸ As such, the purpose of the fair use doctrine is to limit the original artist's rights.

The fair use doctrine was codified in the Copyright Act of 1976 as a defense to copyright infringement.⁴⁹ The statute provides that, “the fair use of a copyrighted work, including such use by reproduction . . . for purposes such as criticism, comment, news, reporting, teaching, . . . scholarship, or research, is not an infringement of copyright.”⁵⁰ The law, however, “imposes no . . . requirement that a work comment on the original or its author in order to be considered transformative, and a secondary work may constitute a fair use even if it serves some purpose other than . . . criticism, comment, news reporting, teaching, scholarship, and research.”⁵¹ A fair use determination necessitates “an open-ended and context-sensitive inquiry”⁵² that incorporates four non-exclusive factors:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.⁵³

When determining whether an artist made fair use of another's work, a court will explore and weigh together all four statutory factors in light of the purposes of copyright.⁵⁴ The “ultimate test of fair use . . . is whether the copyright law's goal of ‘promoting the Progress of Science and useful Arts’ . . . would be better served by allowing the use than by preventing it.”⁵⁵ Traditionally, fair use has been treated as an affirmative defense for artists who have appropriated others' work,⁵⁶ but more recently it has been better viewed as a right granted by the Copyright Act of 1976.⁵⁷ The recent interpretation makes more sense, as copyright is a privilege that is granted through legislative act,⁵⁸ rather than a right.

47. *Id.*

48. *Id.* (brackets and citation omitted).

49. 17 U.S.C. § 107.

50. *Id.*

51. *Cariou*, 714 F.3d at 706 (citation omitted).

52. *Id.* at 705 (citations omitted).

53. 17 U.S.C. § 107.

54. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 (1994) (citation omitted).

55. *Cariou*, 714 F.3d at 705 (citation omitted).

56. *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532, 1542 (11th Cir. 1996).

57. *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1260 n.3 (11th Cir. 2001).

58. See John Tehranian, *Et Tu, Fair Use? The Triumph of Natural Law Copyright*, 38 U.C. DAVIS L. REV. 465, 493 (2005).

1. The Purpose and Character of the Use

The Second Circuit explains that the “purpose and character”⁵⁹ of the secondary use is the most significant consideration when determining fair use. Thus, the “transformativeness” element of this first statutory factor is at the “heart of the fair use inquiry.”⁶⁰ To determine whether a secondary work makes fair use of an original work, the court considers

whether the new work merely ‘supersedes the objects’ of the original creation, or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message[,] . . . in other words, whether and to what extent the new work is transformative.⁶¹

When, according to a reasonable observer, “the secondary use adds value to the original—if copyrightable expression in the original work is used as raw material, transformed in the creation of new information, new aesthetics, new insights and understandings—[it] is the very type of activity that the fair use doctrine intends to protect for the enrichment of society.”⁶² A transformative work, therefore, is entitled to a fair use defense against a copyright claim. Or, more properly explained, artists have the right to fair use of the work of others when they transform it. Significantly, “transformativeness” must “guide, rather than follow” the fair use analysis.⁶³

The first fair use factor, the purpose and character of the use, also considers whether the appropriated work has a commercial or nonprofit educational purpose. Courts are concerned with the “unfairness that arises when a secondary user makes unauthorized use of copyrighted material to capture significant revenues as a direct consequence of copying the original work.”⁶⁴ The commercialism factor, however, is applied cautiously because Congress did not intend a rule that commercial uses are presumptively unfair.⁶⁵ In fact, if a work is transformative, then a court will consider its commercial nature much less significant.⁶⁶

2. The Nature of the Copyrighted Work

When determining whether an appropriation is fair use of an original work, courts also consider the nature of the appropriated work. Specifically, this factor involves analysis of “(1) whether the work is expressive or creative . . . with a greater leeway being allowed to a claim of fair use where the work is factual or informational, and (2) whether the work is published or unpublished, with the scope for fair use involving

59. 17 U.S.C. § 107(1).

60. *Blanch v. Koons*, 467 F.3d 244, 251 (2d Cir. 2006).

61. *Cariou*, 714 F.3d at 705–06 (citations omitted).

62. 4 NIMMER ON COPYRIGHT § 13.05 (2021).

63. *Cariou*, 714 F.3d at 706.

64. *Id.* at 708 (citation omitted).

65. *Id.* (citation omitted).

66. *Id.* (citation omitted).

unpublished works being considerably narrower.”⁶⁷ The factor “has rarely played a significant role in the determination of a fair use dispute.”⁶⁸ As with the commercial character factor, moreover, this factor “may be of limited usefulness where [] the creative work of art is being used for a transformative purpose.”⁶⁹

3. The Amount and Substantiality of the Portion of Work Used

The third factor of the fair use inquiry is “whether the quantity and value of the materials used are reasonable in relation to the purpose of the copying.”⁷⁰ Essentially, courts consider “the proportion of the original work used, and not how much of the secondary work comprises the original.”⁷¹ The “extent of permissible copying varies with the purpose and character of the use,” and “the law does not require that the secondary artist may take no more than is necessary.”⁷² Courts even recognize “copying the entirety of a work is sometimes necessary to make a fair use of the image.”⁷³ A court, therefore, will assess the secondary artist’s quantitative and qualitative borrowing of the original work, and find against fair use on this factor only if “the essence” of the original work was appropriated.⁷⁴

4. The Effect on the Potential Market for the Copyrighted Work

The final consideration when determining whether an appropriation is fair use requires analysis of the market for the appropriated work. This factor asks “whether, if the challenged use becomes widespread, it will adversely affect the potential market for the copyrighted work.”⁷⁵ The market for the original work includes “only those [markets] that creators of original works would in general develop or license others to develop.”⁷⁶ To this end, courts are not concerned “whether the secondary use suppresses or even destroys the market for the original work or its potential derivatives.”⁷⁷ Rather, they are concerned whether “the secondary use *usurps* the market of the original work,”⁷⁸ and if so, this factor will weigh against a finding of fair use. An appropriation is generally considered to have usurped the market for copyrighted

67. *Warhol*, 992 F.3d 99, 117 (2d Cir. 2021) (citation omitted); *see generally* 17 U.S.C. § 107(2).

68. *Warhol*, 992 F.3d at 117 (citation omitted).

69. *Id.* (citations omitted).

70. 17 U.S.C. § 107(3).

71. *Cariou*, 714 F.3d at 710.

72. *Id.* (citation omitted).

73. *Id.* (citation omitted).

74. *See Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith*, 992 F.3d 99, 119 (citation omitted).

75. *Id.* at 120 (citation omitted).

76. *Cariou*, 714 F.3d at 709–10 (citation omitted).

77. *Id.* at 708 (citations omitted). Under the current Copyright Act, “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 adopted. 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.’” 17 U.S.C. § 101.

78. *Id.* (citations omitted).

works when its target audience and the nature of the appropriated content is the same as the original.⁷⁹ This factor weighs in favor of fair use when an appropriation “does not substitute for the original and serves a different market function.”⁸⁰

The Second Circuit explains that this factor requires a balancing “between the benefit the public will derive if the use is permitted and the personal gain the copyright owner will receive if the use is denied. The less adverse effect that an alleged infringing use has on the copyright owner’s expectation of gain, the less public benefit need be shown to justify the use.”⁸¹ In general, a secondary artist has a right to fair use when their work does not diminish the potential sales of the original artist’s works, interfere with the marketability of the original work, or otherwise fulfill the demand for the original work.⁸²

Nimmer, in his Copyright law treatise, warns that there is a “danger of circularity” when considering the potential market for the original, and more convincingly, derivative works.⁸³ A work of appropriation implies that there was a potential market for the original work, no matter how unlikely. In fair use cases, therefore, courts must discern whether the secondary artist filled a market niche that the original artist had no interest occupying.⁸⁴ The original artist must show by a preponderance of the evidence that there is a meaningful likelihood of future harm resulting from the secondary work.⁸⁵ Courts should not engage in speculative inquiry into nonexistent derivative markets here,⁸⁶ and ought to ground their examination of the derivative market with evidence, such as whether the original artist engaged in actual marketing in a potential derivative market.⁸⁷

The Seventh Circuit Court of Appeals (“Seventh Circuit”) considers this last factor as “usually” the most important.⁸⁸ According to the Second Circuit, however, “the more transformative the secondary use, the less likelihood that the secondary use substitutes for the original, even though the fair use, being transformative, might well harm, or even destroy, the market for the original.”⁸⁹ It seems, then, that “transformativeness” may tip the balance of this fair use factor as well.

79. *Id.*

80. Melissa Eckhause, *Digital Sampling v. Appropriation Art: Why Is One Stealing and the Other Fair Use? A Proposal for a Code of Best Practices in Fair Use for Digital Music Sampling*, 84 MO. L. REV. 371, 392 (2019) (citation omitted).

81. *MCA, Inc. v. Wilson*, 677 F.2d 180, 183 (1981).

82. *See, e.g., Hustler Mag., Inc. v. Moral Majority, Inc.*, 796 F.2d 1148, 1156 (9th Cir. 1986).

83. NIMMER, *supra* note 62, § 13.05.

84. *See id.*

85. *Ass’n of Am. Medical Coll. v. Cuomo*, 928 F.2d 519, 525 (2d Cir. 1991).

86. NIMMER, *supra* note 62, § 13.05.

87. *Id.*, citing *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 599 (1994). Some scholars contend that the very existence of derivative rights may stifle artistic progress and is contrary to the constitutional directive to promote art. *See Tehranian, supra* note 58, at 489–490.

88. *Kienitz v. Sconnie Nation, LLC*, 766 F.3d 756, 758 (7th Cir. 2014).

89. *Cariou v. Prince*, 714 F.3d 694, 709 (2d Cir. 2013) (citation omitted).

B. FAIR USE OF APPROPRIATED ART

Several courts have recently advanced the application of the fair use doctrine to art appropriation, and the line of defense appears to have been drawn directly through artist Richard Prince's *Canal Zone* series. In that series, Richard Prince incorporated into his pieces several of photographer Patrick Cariou's classical portraits of Rastafarians living in Jamaica. Cariou filed a corresponding claim against Prince for copyright infringement, and a split three-member panel of the Second Circuit Court of Appeals ultimately ruled that twenty-five of Prince's pieces made fair use of Cariou's work and were entitled to that defense as a matter of law against the copyright complaint.⁹⁰ The Second Circuit remanded the case for determination on whether the remaining five works in the series were also fair use.⁹¹

In making its decision, the court gave great weight to the transformative element of the first factor of the right to fair use. The court found that the twenty-five pieces defensible under the fair use doctrine were transformative as a matter of law because of the aesthetic differences between the original and secondary works. Prince altered the "composition, presentation, scale, color palette, and media" of the appropriated photographs.⁹²

With respect to the commercial element of the first fair use factor, the court held that "[a]lthough there is no question that Prince's artworks are commercial, we do not place much significance on that fact due to the transformative nature of the work."⁹³ The court also found that the transformative nature of Prince's work supplanted the second and third factors of the fair use inquiry as well. Specifically, the third "factor may be of limited usefulness where, as here, the creative work of art is being used for a transformative purpose."⁹⁴ Transformativeness similarly controlled the analysis of the fourth factor of the fair use analysis, as the court identified that Prince "transformed those photographs into something new and different and, as a result, this [fourth] factor weighs heavily in Prince's favor."⁹⁵ Prince's work so transformed the original work that Prince's audience was ultimately different from Cariou's audience, and therefore "Prince's work [n]ever touched—much less usurped—either the primary or derivative for Cariou's work."⁹⁶

One of the Prince pieces that the court found to be fair use was *Back to the Garden* which twice appropriated an entire Cariou photograph of a man on a *burro*. The first instance of appropriation shows a Cariou photo that is ostensibly unaltered in the Price collage other than that it appears as if it has been folded or torn (Figure 14).

90. *Id.*

91. *Id.*

92. *Id.* at 706 (citation omitted).

93. *Id.* at 708.

94. *Id.* at 710 (citation omitted).

95. *Id.*

96. *Id.* at 709.



Figure 14. Patrick Cariou, photograph of a man on a burro, 2000 (left),⁹⁷ and Richard Prince, *Back in the Garden*, 2008 (right).⁹⁸

On the other hand, Prince's *Charlie Company*—which very similarly appropriates fourfold the same Cariou photo of the man on a *burro*—was one of the five pieces the court could not “confidently . . . make a determination [on its] transformative nature as a matter of law”⁹⁹ (Figure 15).



Figure 15. Patrick Cariou, photograph of a man on a burro, 2000 (left),¹⁰⁰ and Richard Prince, *Charlie Company*, 2008 (right two images).¹⁰¹

97. Patrick Cariou, *A Man on a Burro* (photograph), in PATRICK CARIU, YES RASTA 83–84 (2000).

98. Richard Prince, *Back in the Garden* (collage), in *Richard Prince: Canal Zone*, GAGOSIAN (2008), <https://gagosian.com/exhibitions/2008/richard-prince-canal-zone> [<https://web.archive.org/web/20221102190633/https://gagosian.com/exhibitions/2008/richard-prince-canal-zone>].

99. *Cariou v. Prince*, 714 F.3d 694, 710–11 (2d Cir. 2013).

100. CARIU, *supra* note 97.

101. GAGOSIAN, *supra* note 98.

It is unclear whether the court disliked the quadruple copy of the appropriated figure in *Charlie Company* or rather liked the extra nude in *Back to the Garden* upon making a transformativeness determination for these works for fair use purposes. Nevertheless, the court did not rule that the image in *Charlie Company* was *not* transformative, and “express[ed] no view”¹⁰² as to whether it was entitled to a fair use defense. The Cariou case ultimately settled, so there is no further clarity on the application of fair use to these facts. The case is considered the “high-water mark of [the] court’s recognition of transformative works.”¹⁰³

Indeed, a few years later, the same Richard Prince was sued by photographer Donald Graham for copyright infringement for appropriating a photograph of a Rastafarian smoking a marijuana cigarette (Figure 16).¹⁰⁴ Prince encountered Graham’s photograph as reposted on the social media site Instagram and then commented in apparent gibberish in response to the reposter’s comment. Prince took a screenshot of the photograph with both posts and arranged for the screenshot to be printed as a final piece of artwork. In the *Graham* case, the Federal District Court for the Southern District of New York denied Prince’s motion to dismiss the complaint based on fair use, finding that at that stage of the litigation, absent a full record developed through discovery, all of the fair use factors militated against Prince.



Figure 16. Donald Graham, *Rastafarian Smoking a Joint*, 1996, and Richard Prince, *Untitled*, 2014.¹⁰⁵

Specifically, the court found that because Prince has reproduced Graham’s portrait without significant aesthetic alterations, the work was not transformative as a matter of law. While the court also found that Prince’s work was made with a distinctly

102. *Cariou*, 714 F.3d at 713.

103. *Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith*, 992 F.3d 99, 110 (2d Cir. 2021) (emphasis added) (citation omitted).

104. *See Graham v. Prince*, 265 F. Supp. 3d 366 (S.D.N.Y. 2017).

105. Donald Graham, *Rastafarian Smoking a Joint* (photograph) and Richard Prince, *Untitled* (photograph), in *Graham*, 265 F. Supp. 3d at 373.

commercial purpose; Graham's original photograph was expressive and creative in nature; Prince used nearly the entirety of Graham's photograph; and the complaint adequately alleged usurpation of the primary market at issue, it was apparent from the opinion that the issue of transformativeness, or the ostensible lack thereof, was the dominant factor in this decision as well. The Graham case also settled prior to a final disposition, so the uncertainty remains with respect to the application of the right of fair use in art appropriation. Even worse, recently another panel of the Second Circuit has further muddied its analysis in *Cariou* when it reversed a decision of the Federal District Court for the Southern District of New York that granted summary judgment to the Andy Warhol Foundation on fair use grounds in a similar copyright infringement case.¹⁰⁶ Based in part on the *Cariou* precedent, the lower court found for the Andy Warhol Foundation's summary assertion of the fair use defense for his recognizable work depicting the rockstar Prince, which he derived from a photograph taken by a third party.¹⁰⁷ The Second Circuit nevertheless reversed that determination in a surprising—and perhaps inconsistent—decision in which it directly sought to mitigate the criticism of its *Cariou* decision.¹⁰⁸

It is difficult to see how Andy Warhol's rendition of a photo of the rockstar Prince was not considered fair use (Figure 17), but Richard Prince's appropriation of the photograph in *Back to the Garden* was found to be fair use as a matter of law. Moreover, the decision against the Andy Warhol Foundation is entirely irreconcilable with the Seventh Circuit's finding that Sconnie Nation's similar silk screen appropriation of a comparable photograph of Paul Soglin (Figure 18) was fair use.¹⁰⁹



Figure 17. Lynn Goldsmith, *Prince*, 1981, and Andy Warhol, rendition of *Prince*, 2016.¹¹⁰

106. *Warhol*, 992 F.3d at 110.

107. *Id.*

108. *Id.* at 110 (citation omitted) (see Figure 17).

109. *Kienitz v. Sconnie Nation, LLC*, 766 F.3d 756, 760 (7th Cir. 2014).

110. Lynn Goldsmith, Prince (photograph) and Andy Warhol, Prince (illustration), in *Warhol*, 992 F.3d at 106.

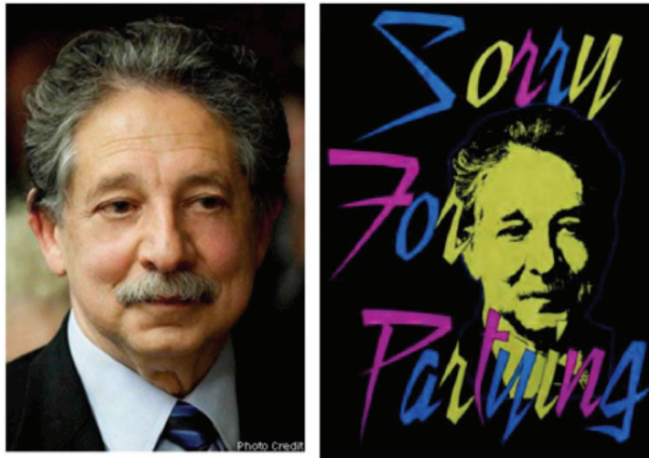


Figure 18. Michael Kienitz, mayor Paul Soglin, 2011, and Scennie Nation, *Sorry for Partying* t-shirt, 2012.¹¹¹

Upon examining the original and appropriated images of both Prince and Soglin, it is doubtful that a “reasonable observer” would be able to discern which secondary work was more transformative; an ordinary “reasonable observer” may not even be able to discern which silk screen was a Warhol. Justice Frank Easterbrook of the Seventh Circuit explained that Scennie Nation made fair use of its appropriated photograph, noting that its colors and shading are different, its proportion has changed, and the silk-screening changed the effect of the lighting, among other things.¹¹² And, naturally, an outline of a face is not copyrightable. Yet, notwithstanding Justice Easterbrook’s sound reasoning in support of fair use in a very similar case, and further notwithstanding its own precedent in *Cariou*, the Second Circuit overturned the lower court’s finding that Warhol had fairly used the photograph at issue.

As such, the *Andy Warhol Foundation* case added to the uncertainty of the application of fair use to art appropriation. The Second Circuit then aggravated the uncertainty even further by uncharacteristically ordering the parties in the *Andy Warhol Foundation* case to rebrief the case in light of the United States Supreme Court’s decision on fair use in *Google v. Oracle*,¹¹³ which was published within days of its *Andy Warhol Foundation* decision. In its petition for rehearing, the Andy Warhol Foundation emphasized that the Supreme Court found Google’s “line-for-line” copying of Oracle’s software code as transformative fair use when building its Android operating system,

111. Michael Kienitz, Mayor Paul Soglin (photograph) and Scennie Nation, *Sorry for Partying* (illustration), in *From the Field: Second Circuit Fair Use Decision Sets Up Circuit Split*, MAURIEL KAPOUYTIAN WOODS (Apr. 14, 2021), <https://www.mkwllp.com/from-the-field/second-circuit-fair-use-decision-sets-up-circuit-split> [<https://web.archive.org/web/20221029063247/https://www.mkwllp.com/from-the-field/second-circuit-fair-use-decision-sets-up-circuit-split>].

112. *Kienitz*, 766 F.3d at 759.

113. *Google LLC v. Oracle Am., Inc.*, 576 U.S. 1071 (2021).

and further expressed a strong public policy reason for supporting innovative works.¹¹⁴ According to the Andy Warhol Foundation, the Supreme Court in *Google* even gave a “nod” to Warhol himself in its opinion with a reference to his famous Campbell’s soup can to explain how the fair use principle should apply liberally in “artistic” cases: “[a]n artistic painting [could] fall within the scope of fair use even though it precisely replicates a copyrighted advertising logo to make a comment about consumerism.”¹¹⁵ In rejecting the Andy Warhol Foundation’s argument, the Second Circuit panel largely repeated its original opinion,¹¹⁶ and in another twist of uncertainty, shortly thereafter the United States Supreme Court granted the Andy Warhol Foundation’s petition for certiorari. It is unclear what the Supreme Court hopes to resolve pursuant to its grant of certiorari. Ideally, the Supreme Court will take the opportunity to add clarity to this area of law and honor the constitutional directive, and its own recent policy imperative, to promote artistic inspiration. A decision is expected by July 2023.

IV. FAIR USE AND HIGH FASHION

A. APPROPRIATIVE HIGH FASHION IS INTRINSICALLY FAIR USE

Fashion is art, and fashion artists should be entitled to the same right to fair use afforded to sculptors and graphic artists such as Richard Prince in the *Cariou* case and Jeff Koons in his own case wherein, much like a fashion artist might, he appropriated a depiction of legs, feet, and sandals from a photograph.¹¹⁷ As with any art form, fashion necessarily borrows from other artists,¹¹⁸ and when it does, the creations, as we have seen, are extraordinary. In fact, the appropriative creations of high fashion are so inherently and uniquely transformative that courts should adopt a more liberal interpretation of fashion artists’ right to fair use.

When applying the legal framework of the fair use doctrine to the fashion industry, it is evident that most appropriative high fashion works satisfy the *Cariou* “high-water mark” to sustain a copyright defense. Indeed, upon balancing the four fair use factors, most fashion creations exceed the *Cariou* standard. As courts have advised that the first and last factors of the fair use analysis are primary and have oftentimes been controlling, most works of high fashion would be able to defend against a claim of copyright infringement under this framework.

114. Petition For Panel Rehearing and Rehearing En Banc, Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith, 992 F.3d 99, 110 (2d Cir. 2021) (No. 19-2420).

115. *Id.* (citing *Google*) (internal quotations omitted).

116. Perhaps foreshadowing, Judge Dennis Jacobs wrote in a concurring opinion that “a sound holding may suggest an unsound result in related contexts.”

117. *See also* *Blanch v. Koons*, 467 F.3d 244, 259 (2006) (affirming summary judgment in favor of artist Jeff Koons on the grounds of fair use).

118. Even the Second Circuit panel in the *Andy Warhol Foundation* case recognized that “in art, there are, and can be, few, if any, things, which in an abstract sense, are strictly new and original throughout. Every book in literature, science and art, borrows, and must necessarily borrow, and use much which was well known and used before.” *Warhol*, 992 F.3d at 109 (citation omitted).

1. Fashion Creations Are Inherently Transformative

When appropriating other works, high fashion almost always changes the composition, presentation, scale, media, character, purpose, and meaning of the original work. Fashion presents previously existing works differently, even when appropriating entire images from another artwork. The appearance, use, and media are all demonstrably different.¹¹⁹ Among other things, in textile creations, appropriated images are flattened, cut, and arranged differently or in a different context. Fashion creations “move,” as the art is placed on, and repositions with, the human body. The expression is transformed as fashion travels with the human body. When incorporated into fashion, art takes on an entirely new meaning. Its purpose and *raison d'être* are different. Even when fashion arrogates an entire artist image, it is essentially absorbed like a “Cheshire Cat, [where] only the smile remains.”¹²⁰ Fashion, therefore, is necessarily transformative.

Take, for example, a piece from Raf Simons' Spring 2017 collection (Figure 19). Simons has distinctly appropriated Robert Mapplethorpe's entire photograph of Alice Neel. Yet, Simons' appropriation likely satisfies the heavily weighted transformative element of the first factor in favor of the overall right to fair use. Like most appropriative high fashion, Simons' piece clearly transforms the original work. Simons explains that in his work, he creates a personal connection with the original works, and makes his creations in relation to how the original artist framed the subjects.¹²¹ The original photograph in Simons' piece was taken of pioneering figurative painter Alice Neel at the age of eighty-four, just a week before she succumbed to cancer. With her eyes closed, mouth open, and a halo of white hair, the photograph has been viewed as an angelic release of a final breath.¹²²

119. *Accord Rogers v. Koons*, 960 F.2d 301, 312 (2d Cir. 1992) (finding that copying art in a different medium is a key determinant in fair use analysis unless the new work otherwise affects the market for the original art).

120. *Kienitz*, 766 F.3d at 759.

121. *Id.*

122. *Robert Mapplethorpe: Alice Neel*, NAT'L GALLERIES SCOT., <https://www.nationalgalleries.org/art-and-artists/90868/alice-neel> [<https://perma.cc/7U36-BDSD>] [<https://web.archive.org/web/20221102201703/https://www.nationalgalleries.org/art-and-artists/90868/alice-neel>] (last visited Nov. 2, 2022).'



Figure 19. Robert Mapplethorpe, *Alice Neel*, 1984,¹²³
and Raf Simons', *Alice Neel* shirt, Spring 2017.¹²⁴

Simons' work transforms the photograph into something arguably darker. Simons puts the original work off-center on a textile canvas, where the photograph hangs on the human body on the left side just below the heart. The photograph is placed in front of stripes that have the contrasting appearance of placing the human body behind jail bars. The arms of the young man wearing the shirt are overtaken by cuffs, and the front placket reaches like a noose around the model's neck. Although at first glance one might presume Simons did a cheap cut-and-paste copy of Mapplethorpe's photograph onto a shirt, the "transformativeness" of the piece becomes clear once one views the entire canvas. As such, Simons' use of the appropriated photograph on his textile is just as much fair use as Richard Prince's appropriation of the photograph in his work *Back in the Garden*.

As with Raf Simons, most high fashion is highly transformative, and as with other more traditionally known appropriation artists' work, appropriative fashion is defensible fair use as such. By way of further example, in the first piece of Figure 20 below, Versace transformed images appropriated from the work of another appropriation artist, Andy Warhol. In the second piece in Figure 20 below, Versace appropriated images of Vogue Magazine covers in creating a luxury dress. Although Versace's transformations may not be as penetrating as Raf Simons', there is no doubt that, like all high fashion, the Versace creations transform and present a different experience than the original appropriated works. As with other examples of appropriation fashion, Versace's work transforms the composition, presentation, scale,

123. Robert Mapplethorpe, *Alice Neel* (photograph), *in id.*

124. Vogue, photograph of Alice Neel Shirt on runway, *in* Annuziata Santelli, *Appropriation Art in Fashion*, PETRIE, <http://www.petrieinventory.com/appropriation-of-art-in-fashion> [<https://perma.cc/ZN7V-TRRV>] [<https://web.archive.org/web/20221102202042/http://www.petrieinventory.com/appropriation-of-art-in-fashion>] (last visited Nov. 2, 2022).

purpose, and media. Both Versace creations have separate messages from the original works, and from each other.



Figure 20. Gianni Versace, *Warhol Marilyn gown*, 1991,¹²⁵ and Versace *Vogue magazine print*, Spring 2018.¹²⁶

Pursuant to the first—and most heavily weighted—factor of the fair use inquiry, it is evident that high fashion “supersedes the objects” of the original works it appropriates. This transformative character enriches society, and this outweighs any reservations associated with its commercial use under this factor. While the first fair use factor gives preference to art that is used for educational or other nonprofit purposes, the preference, nevertheless, recognizes the overall societal value of even commercialized art. The preference is therefore applied cautiously and is typically offset by a finding that a work is transformative. Fashion patently alters its appropriations by infusing new expression, meaning, and messages, and under this analysis, fairly uses the work from which it borrows.

125. Gianni Versace, *Warhol Marilyn Gown* (photograph), in Polyzoidou, *supra* note 32. Versace copied the images from Andy Warhol’s 1967 work *Marilyn Monroe*. You can also see a portrait of James Dean in the dress. Donatella Versace recently transformed Gianni Versace’s transformation of the Warhol art to commemorate the twentieth anniversary of Gianni’s death, found in Shloka Shetty, *Donatella’s Tribute to Gianni—Nostalgic or Du Jour?*, STICH (May 11, 2018), <http://www.stitchfashion.com/home//donatellas-tribute-to-gianni-nostalgic-or-du-jour> [<https://perma.cc/RSQ2-5GSV>] [<https://web.archive.org/web/20221102202356/http://www.stitchfashion.com/home//donatellas-tribute-to-gianni-nostalgic-or-du-jour>].

126. Alessandro Garofalo, *Versace Vogue Magazine Print* (photograph), in Lianna Satenstein, *VOGUE* (Nov. 16, 2017), <https://www.vogue.com/article/jlo-versace-vogue-dress-dubai> [<https://perma.cc/L7FH-FRLM>] [<https://web.archive.org/web/20221102202649/https://www.vogue.com/article/jlo-versace-vogue-dress-dubai>] (citing Indigital.tv).

2. Fashion Does Not Impact the Market for Other Art

Upon consideration of the final primary factor of fair use, it is equally clear that fashion occupies a different market from the original work it appropriates. This fourth factor weighs in favor of fair use when an appropriation “does not substitute for the original and serves a different market function,”¹²⁷ and here, a Versace dress does not substitute for one or more issues of *Vogue Magazine*. The market for fashion and graphic art do not generally overlap, and certainly fashion does not overcome it. Indeed, *high* fashion and graphic art occupy exclusively different markets, and even low-brow fashion such as “a t-shirt or a tank top is no substitute for [a] photograph.”¹²⁸

It is equally humorous to believe that a fashion artist would usurp the derivative market for an original work. This is especially true for graphic art, where the argument becomes purely speculative.¹²⁹ To this end, an original graphic artist must show by a preponderance of the evidence that they had an interest in occupying a derivative market that the fashion piece usurped.¹³⁰ They must further demonstrate that the original artistry had a “meaningful likelihood” of personal gain that would be denied because of the fashion creation.¹³¹ The original artist must produce evidence to prove these arguments, such as proof that they engaged in actual marketing in the fashion market, or that the fashion creation caused the graphic artist to lose sales, interfered with its marketability, or somehow fulfilled demand for the original graphic work.¹³²

For example, even though Simons’ luxury shirt appropriates the entire Mapplethorpe image, it cannot be said to usurp, or even occupy, the market for Mapplethorpe’s photography. Namely, Simons’ target audience is purchasers of men’s shirts, which is not the same as purchasers of Robert Mapplethorpe photographs. Further, there is no “meaningful likelihood” that Mapplethorpe had an interest in occupying the market niche of men’s high fashion.¹³³ It is unlikely that Mapplethorpe had meaningfully contemplated entering the derivative fashion market in the first instance, and even less likely that he had a reasonable expectation of personal gain from entering the derivative fashion market. Simons’ luxury shirt would not divert sales from derivative images of *Alice Neel*, just like Yves St. Laurent’s dress would not divert sales from images derived from the works of Piet Mondrian. Significantly, high fashion, such as creations made by Yves St. Laurent, is so distinct that it would be unlikely to impact genuinely any derivative market for something else. Ultimately, however, regardless of the effect the fashion creation might have on the potential market for an original work, courts advise that when the appropriative art is transformative, that characteristic generally serves to outweigh all of the other elements of the fair use test, including this fourth factor, and militates in favor of the secondary fashion artist.

127. Eckhause, *supra* note 80.

128. *Kienitz v. Sconnie Nation, LLC*, 766 F.3d 756, 759 (7th Cir. 2014).

129. *NIMMER*, *supra* note 62, § 13.05.

130. *Id.*

131. *Assn. of Am. Medical Colleges v. Cuomo*, 928 F.2d 519, 525 (2d Cir.), *cert. dismissed*, 502 U.S. 862 (1991).

132. *Id.*

133. *See generally* *NIMMER*, *supra* note 62, § 13.05.

3. The Transformative Character of Fashion Outweighs the Other Factors of the Fair Use Analysis

Although much of the law on fair use is muddled, most courts agree that the first and last prongs of the fair use test generally control the analysis of whether an appropriation is defensible as such. There is little dispute that when a secondary work is transformative under the first prong of the fair use analysis, that characteristic outweighs the other considerations. Specifically, when appropriative work is as transformative in purpose and character as fashion, courts will likely pardon its commercial nature, which is also considered under the first prong of the fair use analysis. Much appropriation art is commercial in nature, and courts seem to routinely disregard this part of the fair use analysis.¹³⁴

In the same vein, when appropriative work is transformative, courts will find it less significant that an original work was unpublished and expressive, which would ordinarily merit more copyright protection under the second prong of the fair use analysis. In fact, the Second Circuit has rationalized that this factor “may be of limited usefulness” when a work of art has been used for a transformative purpose, as is inherent to fashion.¹³⁵

The only other fair use factor for consideration is the third prong whereby courts consider how much of the original work an appropriation artist uses. While courts will assess the secondary artist’s quantitative and qualitative borrowing of the original work, this factor melts into the transformativeness analysis. As in Prince’s *Back in the Garden*, courts have found as fair use the appropriation of entire unaltered images.¹³⁶ The extent of permissible copying varies with the purpose of the use under this analysis, and courts have liberally permitted appropriation under this factor when the use was transformative. Upon consideration of appropriative fashion, which is intrinsically transformative, it is hard to imagine that this fair use factor would control the analysis.

Thus, upon consideration of the primary factors of the fair use doctrine, appropriation by high fashion is uniquely transformative and is therefore almost always defensible. The transformativeness element of the first fair use factor usually outweighs the other factors for consideration of fair use.¹³⁷ Even where courts would give weight to the fourth fair use factor—the effect of the fashion creation on the market for the original work—the fashion industry’s appropriation will usually remain defensible fair use because it is unlikely that a fashion creation would usurp a market for another type of art. Fashion is not substitute for graphic or other forms of art. Accordingly, under the heavily-weighted first and fourth prongs of the fair use test, fashion is likely to be especially defensible against a copyright claim. It is intrinsically “the very type of activity that the fair use doctrine intends to protect for the enrichment of society.”¹³⁸

134. See, e.g., NIMMER, *supra* note 62, § 13.05.

135. *Cariou v. Prince*, 714 F.3d 694, 710 (2d Cir. 2013) (citation omitted).

136. See, e.g., *Kienitz v. Sconnie Nation, LLC*, 766 F.3d 756, 759 (7th Cir. 2014).

137. See *Cariou*, 714 F.3d at 706.

138. NIMMER, *supra* note 62, § 13.05 (quoting Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990)).

B. TOWARD LEGAL CLARITY

The legal landscape governing appropriation art lacks perspicuity and consistency and threatens to chill some extraordinary works of art arising out of the fashion industry. While the *Cariou* case ostensibly establishes the high-water mark delimiting fair appropriation, it is difficult to discern the line the court drew to divide Richard Prince's seemingly comparable works into those that were entitled to the fair use defense as a matter of law and those works that were not entitled to the fair use defense.

Further, such recent decisions that prohibitively construe artistic fair use like the *Andy Warhol Foundation* and *Graham* cases are hard to reconcile with other recent decisions like *Cariou* and *Kienitz* that have nearly identical facts yet liberally construe fair use. Indeed, returning to the example discussed *supra*, Simons' appropriation of the entire photo of Alice Neel would probably not be considered fair use under the *Graham* decision but might be fair use according to the *Kienitz* decision. Similarly, Versace's appropriation of the Marilyn Monroe images in his famous dress would likely not be entitled to a fair use defense according to the court in the *Andy Warhol Foundation* case. This, it seems, creates a public policy paradox where Andy Warhol would disagree with the results of each such case, both as subject of the appropriation in the first instance and as the creator of the appropriation in the latter instance.¹³⁹

Richard Prince's settlement of the remainder of his legal dispute with Patrick Cariou and Donald Graham preempted any solidification of a hard boundary on art appropriation, which has been further complicated by the Supreme Court's grant of certiorari in the *Andy Warhol* case. It appears, then, that the line of defense drawn in *Cariou* is at best a faded tide line rather than a clear high-water mark of the fair use doctrine.

Nimmer is right when he explains that neither the decisions on fair use, nor the synthesis of factors set forth in Section 107 of the Copyright Act of 1976, "offer[] any firm guide as to when, from 'a consideration of all the evidence,' the defense of fair use *should* be invoked."¹⁴⁰ Courts themselves have recognized that the four factors of the doctrine "def[y] definition,"¹⁴¹ may "confuse rather than aid analysis,"¹⁴² and are a "comedy of miscommunication . . . [as] a haphazard assortment of nonfunctional fragments, [with the] core elements forgotten."¹⁴³ When taken alone, "each of the factors is defined in only the most general terms, so that courts are left with complete discretion in determining whether any given factor is present in any particular case."¹⁴⁴ According to Nimmer, the most precise guide to fair use is likely found in "the Golden Rule: 'Take not from others to such an extent and in such a manner that you would be resentful if they so took from you.'"¹⁴⁵ This position was reinforced by Judge Kevin

139. Warhol probably would have appreciated the Marilyn appropriation. *Cf.* Deposition of Defendant Richard Prince, 117–123 (Oct. 6, 2009) (Richard Prince testified that, as an appropriation artist himself, "it would not bother me in the slightest [sic] for someone to appropriate my work.").

140. NIMMER, *supra* note 62, § 13.05.

141. *Time, Inc. v. Bernard Geis Assocs.*, 293 F. Supp. 130, 144 (S.D.N.Y. 1968).

142. *Educ. Testing Servs. v. Stanley H. Kaplan, Educ. Ctr., Ltd.*, 965 F. Supp. 731, 736 (D. Md. 1997).

143. *Cambridge Univ. Press v. Patton*, 769 F.3d 1232, 1285 (11th Cir. 2014) (citation omitted).

144. NIMMER, *supra* note 62, § 13.05.

145. *Id.*

Thomas Duffy's opening sentence when finding copyright infringement in *Grand Upright Music, Ltd. v. Warner Bros. Records, Inc.*: "Thou shalt not steal."¹⁴⁶

It is because of this discretion, aggravated by legal ambiguity, that the current fair use test has been deployed "at a great price to progress in the arts."¹⁴⁷ The current doctrine of fair use, as recently limited by the *Andy Warhol Foundation* and *Graham* cases, would deprive society of creations made by Andy Warhol, Richard Prince, Raf Simons, Versace, and other talented artists. This deprivation is evidenced by the ruling of the United States District Court for the Southern District of New York ordering Richard Prince to "within ten days . . . deliver up [his art] for impounding, destruction, or other disposition as Plaintiff determines."¹⁴⁸ Not only was the court's order shocking, but it is also in derogation of the express purpose of Article I of the United States Constitution to "promote the Progress of Science and useful Arts."¹⁴⁹ Giving a plaintiff the choice to destroy Richard Prince's artwork is injudicious and directly contrary to the very reasoning behind the fair use doctrine's existence, which is "to stimulate activity and progress in the art for the intellectual enrichment of the public."¹⁵⁰

Even one of the Justices who found against Andy Warhol in the *Andy Warhol Foundation* case recognized this issue. In that case, Justice Dennis Jacobs expressed reservations about the chilling effect such prohibitive decisions would have on art:

The issue, however, still looms, and our holding may alarm or alert possessors of other artistic works. Warhol's works are among many pieces that incorporate, appropriate, or borrow from protected material. Risk of a copyright suit or uncertainty about an artwork's status can inhibit the creativity that is a goal of copyright.¹⁵¹

It is regrettable that such muddled and expansive judicial interpretations of copyright protections may ultimately "stifle the very creativity which that law is designed to foster."¹⁵²

As it stands, appropriative artists will rarely escape liability, barring use of only works already in the public domain or obtaining licensing for the original work's copyright.¹⁵³ It is entirely inconsistent with the United States Constitution to create this type of system whereby artists are required to prenegotiate a license to create a

146. 780 F. Supp. 182, 183 (S.D.N.Y. 1991) (citing the Bible, the court found that the defendants also violated the Seventh Commandment). Note that Judge Leval has cautioned against examining morality in fair use cases, indicating it is a "false lead." Pierre Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1128 (1990).

147. Tehranian, *supra* note 58, at 504.

148. *Cariou v. Prince*, 784 F. Supp. 2d 337, 355 (S.D.N.Y. 2011), *rev'd in part, vacated in part*, 714 F.3d 694 (2d Cir. 2013).

149. U.S. CONST. art. I, § 8, cl. 8.

150. *Cariou v. Prince*, 714 F.3d 694, 705 (2d Cir. 2013) (citation omitted).

151. *Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith*, 992 F.3d 99, 127 (2d Cir. 2021) (Jacobs, J., concurring).

152. *Iowa State Univ. Rsch. Found., Inc. v. Am. Broad. Co.*, 621 F.2d 57, 60 (2d Cir. 1980).

153. Tehranian, *supra* note 58, at 499.

work of art. This system threatens to create “a class of uses that would not be possible if users always had to negotiate with copyright proprietors.”¹⁵⁴

Courts should take the present opportunity prompted by the Supreme Court’s grant of certiorari in the Andy Warhol Foundation case to clarify the boundary of fair use. In keeping with the purpose of Article I of the United States Constitution, courts should not retreat from, but rather, should advance, the “high-water mark” established in *Cariou* that recognizes that transformativeness, broadly defined, must guide the application of fair use. To this end, many courts have conceded that where a secondary work is transformative, all other fair use factors are insignificant. In fact, an empirical study on fair use opinions demonstrated that where a commercial use of a creative published work was found to be transformative, an appropriate defendant’s chance of successfully asserting a fair use defense would increase to 94.9%.¹⁵⁵ Courts, therefore, ought to abandon the pretense of relying on the other factors of fair use analysis when the secondary work is transformative.¹⁵⁶

Transformativeness is really the key to fair use. Indeed, if a work is transformed, it is a novel creation that adds new value to humanity. It is for this reason that we can see how the new creation does not belong to the original artist who ought not to have rights in it. As confirmed by Judge Pierre Leval, “the answer to the question of justification turns primarily on whether, and to what extent, the challenged use is transformative . . . [If] the secondary use adds value to the original . . . this is the very type of activity that the fair use doctrine intends to protect for the enrichment of society.”¹⁵⁷ While Judge Leval would not abandon the fourth factor of the fair use consideration,¹⁵⁸ he did contextualize that ultimately, the goal of the fair use doctrine is to balance “the social benefit of a transformative secondary use against injury to the incentives of authorship.”¹⁵⁹ Transformativeness thus outweighs all other considerations of the right to fair use.

As the only true test of fair use, transformativeness should be interpreted liberally when applied to the fashion industry. As discussed *supra*, fashion is uniquely transformative art. Among other things, fashion art inherently transforms the

154. *Kienitz v. Sconnie Nation LLC*, 766 F.3d 756, 759 (7th Cir. 2014).

155. Barton Beebe, *An Empirical Study of U.S. Copyright Fair Use Opinions, 1978-2005*, 156 U. PA. L. REV. 549, 606 (2008) (parenthetical omitted).

156. Nimmer and others may recommend dispensation of the fair use factors altogether, but generally incorporate the idea of transformativeness into their own solutions. See NIMMER, *supra* note 62 at 4. See also Richard Dannay, *Factorless Fair Use? Was Melville Nimmer Rights?*, 60 J. COPR. SOC’Y 127 (2013). Dannay was a past president of the Copyright Society of the U.S.A. and believed that “the decision on fair use really turns on this balancing test: Mindful of the purposes of copyright law and the public interest, is there sufficient justification for the use to outweigh the copyright owner’s interests in prohibiting the use or at least in being compensated for it, if an injunction is not warranted.” *Id.* at 144.

157. Pierre Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1111 (1990).

158. See generally Pierre Leval, *Campbell as Fair Use Blueprint*, 90 WASH. L. REV. 597 (2015).

159. Leval, *supra* note 157, at 1105. In his concurrence in *Andy Warhol Foundation*, Judge Richard Sullivan explains that he would render transformativeness a subservient factor to the market harm caused by infringement. Notably, however, the majority did not agree with that sentiment. *Andy Warhol Found. for the Visual Arts, Inc. v. Goldsmith*, 992 F.3d 99, 125–27 (S.D.N.Y. 2011) (Sullivan, J., concurring), *rev’d in part, vacated in part*, 714 F.3d 694 (2d Cir. 2013).

presentation and purpose of the original work. Given the characteristics of appropriative fashion, its fair use is acutely defensible.

Further, as a distinctive art form, fashion demands an “industry-specific” resolution,¹⁶⁰ which necessitates an auspicious application of the right to fair use. Many industries have developed and codified their own norms of fair use with the goal of guiding judicial determinations.¹⁶¹ Fashion should adopt its own generous code of fair use, stressing its intrinsically transformative character. Otherwise, the increasingly prohibitive judicial interpretation of fair use in the arts will unduly restrain creativity in fashion.

Importantly, an extension of the boundary line of the fair use in such a way as to include the aforementioned works of Warhol, Prince, Simons, and Versace, would not leave victims of true infringement without a remedy. Even with an extended boundary, and a liberal application of transformativeness to the fashion industry, liability still remains where a secondary work is not transformative and is simply a copy of the original work. Extending the boundary would not affect the rights of artists such as Dapper Dan to protect their original work from manifest copying, yet it would still preserve Dapper Dan’s right to appropriate the art of Raphael (Figure 21). “Fashion bots” will still be infringement.¹⁶² By reconsidering the *Andy Warhol Foundation* case, such infringements would not be defensible fair use, regardless of an expansion or liberal interpretation of the doctrine.

160. See NIMMER, *supra* note 62, § 13.05.

161. See *id.* at 143, 197, 202 (referencing documentary filmmakers’ statement of best practice, and other industry-specific codes of best practice in fair use, such as for poetry, dance, and software).

162. Fashion bots are computer programs written by t-shirt creators to identify tweets of artistic images that have comments in which people indicate they would buy clothing with the image in the tweet. Proprietors of fashion bots then manufacture and sell clothing with the identical image and sentiment. *Cf.* @robschamberger, TWITTER (Dec. 1. 2019, 9:48 PM), <https://twitter.com/robschamberger/status/1201256862068494337> [<https://perma.cc/X639-TRDC>] [<https://web.archive.org/web/20230317075400/https://twitter.com/robschamberger/status/1201256862068494337>]



Figure 21. Raphael, *Portrait of Lorenzo di Medici, Duke of Urbino*, 1516,¹⁶³ and Dapper Dan jacket for Olympic Gold medalist Diane Dixon, 1989, and Alessandro Michele's Gucci jacket, 2018.¹⁶⁴

It is hard to justify the current legal framework governing fair use where one court orders artists to destroy their own work, and another finds that a Warhol silkscreen is a substitute for a magazine photograph. Such strict and inconsistent applications of fair use will certainly hamper some of the most exquisite creations by appropriation artists, especially fashion artists who are uniquely transformative. The doctrine of fair use is intended, and necessary, “to stimulate activity and progress in the art” pursuant to the directive of the United States Constitution.¹⁶⁵ Fair use is a fundamental right of expression belonging to an appropriative artist; whereas, in contrast, copyright is a privilege granted by a legislative act granting limited protections to original creators of artworks. The current legal framework of “excessively broad protection would stifle, rather than advance, the law’s objective.”¹⁶⁶ By rendering appropriate artists’ works indefensible as such, courts will inhibit artistic creations, including extraordinarily inspired fashion works presented herein. Society would certainly “be better served by allowing the use than by preventing it,” which is the ultimate test of fair use.¹⁶⁷

163. Raphael, *Portrait of Lorenzo di Medici, Duke of Urbino* (painting), in Anna Battista, *The Fashion Renaissance That May Pose Some Legal Issues: Gucci Resort 2018*, IRENEBRINATION (June 6, 2017, 7:20 AM), https://irenebrination.typepad.com/irenebrination_notes_on_a/2017/06/gucci-resort-2018.html [https://perma.cc/AM57-L3HX] [https://web.archive.org/web/20210926114629/http://irenebrination.typepad.com:80/irenebrination_notes_on_a/2017/06/gucci-resort-2018.html].

164. Photograph of Dapper Dan’s Jacket on Diane Dixon and Alessandro Michele’s Gucci Jacket, in *id.* Dapper Dan’s jacket is fair use of Raphael’s art; Gucci’s jacket is not fair use of Dapper Dan’s art.

165. *Cariou v. Prince*, 714 F.3d 694, 705 (2d Cir. 2013) (internal quotation marks omitted).

166. *Id.* (internal quotation marks omitted).

167. *Id.* (internal quotation marks omitted).

Satan Shoes or Satan Speech? Balancing Trademark and First Amendment Rights in the Altered Authentic Goods Context

Ann L. Seminara *

INTRODUCTION

In March 2021, art collective MSCHF released 666 pairs of radically altered Nike Air Max 97 sneakers on its website, christening them “Satan Shoes.”¹ The sneakers were updated from their original form to include a pentagram charm hanging from the laces and a citation to “Luke 10:18” printed on the mudguards.² MSCHF employees allegedly mixed their own blood with red ink and injected the combination into the shoes’ midsoles.³ A small black loop of fabric featuring an upside-down cross extended from the shoes’ tongues, and each shoe was individually numbered out of 666 above the heel.⁴ The Satan Shoes—arguably more artistic expression than consumer good after undergoing these devilish alterations—invite the question: Do artists who redesign authentic goods bearing famous trademarks and re-sell those goods to consumers violate the Trademark Act of 1946 (“the Lanham Act”)? If so, can they assert a First Amendment defense?

“Internet mischief maker” Gabriel Whaley founded MSCHF in 2016 as “a creative studio that makes internet to tell stories,” and the collective’s work has been compared to the work of prolific artists like Banksy, Warhol, and Duchamp.⁵ Every two weeks,

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1. Bryan Pietsch, *Nike Sues Over Unauthorized ‘Satan Shoes’*, N.Y. TIMES (June 18, 2021), <https://www.nytimes.com/2021/03/28/style/nike-satan-shoes-lil-Nas-x.html> [<https://perma.cc/893D-AR3D>] [<https://web.archive.org/web/20221012175813/https://www.nytimes.com/2021/03/28/style/nike-satan-shoes-lil-Nas-x.html>].

2. *Id.*

3. *Id.*

4. *Satan Shoes*, MSCHF, <https://satan.shoes> [<https://perma.cc/ZG9J-PQ33>] [<https://web.archive.org/web/20221012180040/https://mschfsneakers.com/satan-shoes>].

5. Sanam Yar, *The Story of MSCHF, a Very Modern . . . Business?*, N.Y. TIMES (Mar. 30, 2021), <https://www.nytimes.com/2020/01/30/style/MSCHF-sneakers-culture.html> [<https://perma.cc/49TF-6JMY>]

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MSCHF “drops” new art on its website.⁶ CNN referred to the collective as “the master of releasing products that nobody really needs, but everyone absolutely wants.”⁷ Previous drops have included works like the *Cuss Collar*, a dog collar that swears whenever the dog wearing it barks⁸ and a weekly newsletter filled with “unhinged” email chains called *Boomer Email*.⁹ Many of MSCHF’s drops make pointed political and social commentary. For instance, MSCHF offers a *Guns to Swords* program that promises to buy people’s guns, melt them down into swords, and send the swords back to the former-guns’ owners.¹⁰ In its *Medical Bill Art* drop, MSCHF made paintings out of three medical bills, sold them for \$73,000, and used the funds to erase the bill recipients’ medical debt.¹¹

MSCHF placed its Satan Shoes for sale on its website in late March, 2021 as part of its forty-third drop.¹² Crucially, Nike was not involved in the Satan Shoes’ design, modification, or sale and did not endorse the Satan Shoes in any way.¹³ MSCHF created the Satan Shoes in collaboration with Lil Nas X, a music artist who released the song “Montero (Call Me By Your Name)” alongside a music video in which Lil Nas dances seductively with the devil.¹⁴ Lil Nas X described his work as responding to LGBTQ

[<https://web.archive.org/web/20221116172820/https://www.nytimes.com/2020/01/30/style/MSCHF-sneakers-culture.html>]; *Gabriel Whaley*, *The Invisible Dog*, <https://www.theinvisibledog.org/gabriel-whaley> [<https://perma.cc/NP83-2F2K>] [<https://web.archive.org/web/20221116173143/https://www.theinvisibledog.org/gabriel-whaley>] (last visited Nov. 16, 2022) (“Gabe is an internet mischief maker, known for creating sensational ‘internet’ that makes people feel things. He used to work at BuzzFeed, but that didn’t last very long. He has since founded MSCHF, a creative studio that makes internet to tell stories.”). See also Oscar Holland, *A \$30K Damien Hirst Was Cut Up—and the Pieces Are Selling for Seven Times as Much*, CNN (Apr. 30, 2020), <https://www.cnn.com/style/article/damien-hirst-mschf-severed-spots/index.html> [<https://perma.cc/PN6E-EJ4M>] [<https://web.archive.org/web/20221012180249/https://www.cnn.com/style/article/damien-hirst-mschf-severed-spots>].

6. MSCHF, <https://mschf.xyz> [<https://perma.cc/AS6U-GV5X>] [<https://web.archive.org/web/20221012180746/https://mschf.xyz>].

7. Alicia Lee, *You Can Now Buy a Dog Collar That Will Swear Every Time Your Dog Barks*, CNN (Feb. 16, 2020, 5:05 AM), <https://www.cnn.com/2020/02/16/us/cuss-collar-dog-barks-trnd/index.html> [<https://perma.cc/DT4P-WTJ4>] [<https://web.archive.org/web/20221012181048/https://www.cnn.com/2020/02/16/us/cuss-collar-dog-barks-trnd/index.html>].

8. *Id.*

9. Curtis Silver, *Boomer Email Pulls Back The Curtain On The Unhinged World Of Boomer Email Chains*, FORBES (Apr. 13, 2020, 12:00 PM), <https://www.forbes.com/sites/curtissilver/2020/04/13/boomer-email-pulls-back-the-curtain-on-the-unhinged-world-of-boomer-email-chains/?sh=1ec76a9742e7> [<https://perma.cc/DB45-NQZK>] [<https://web.archive.org/web/20221012181157/http://web.archive.org/screenshot/https://www.forbes.com/sites/curtissilver/2020/04/13/boomer-email-pulls-back-the-curtain-on-the-unhinged-world-of-boomer-email-chains/?sh=1ec76a9742e7>].

10. Jon Jackson, *Elon Musk’s Partner Grimes Carried a Sword at the Met Gala: The Story Behind It*, NEWSWEEK (Sept. 14, 2021, 12:44 PM), <https://www.newsweek.com/elon-musks-partner-grimes-carried-sword-met-gala-story-behind-it-1629017> [<https://perma.cc/5M2X-PKN5>] [<https://web.archive.org/web/20221012181415/https://www.newsweek.com/elon-musks-partner-grimes-carried-sword-met-gala-story-behind-it-1629017>].

11. Taylor Dafor, *An Art Collective Turned Three Americans’ Medical Bills Into Paintings and Then Sold Them To Erase \$73,000 Worth of Debt*, ARTNET (Sept. 28, 2020), <https://news.artnet.com/art-world/mschf-medical-debt-paintings-1911250> [<https://perma.cc/MD93-LQ9J>] [<https://web.archive.org/web/20221012181910/https://news.artnet.com/art-world/mschf-medical-debt-paintings-1911250>].

12. MSCHF, *supra* note 6.

13. Pietsch, *supra* note 1.

14. *Id.*

repression.¹⁵ In the media, outcry over the music video compounded with outcry over the Satan Shoes' release, particularly on Twitter.¹⁶ Some social media users—ostensibly confused as to the Satan Shoes' affiliation—insisted that they would never purchase Nike products again, with one suggesting that Nike should be “cancelled” over the Satan Shoes design and release.¹⁷ Whether such comments were posted in good faith or simply to fan the controversy's flames cannot be confirmed.

On March 26, 2021, 665 pairs of the Satan Shoes sold online for \$1,018 per pair within one minute of their release.¹⁸ Nike sued MSCHF in the Eastern District of New York (EDNY) on March 29, alleging trademark infringement, false designation of origin, unfair competition, and trademark dilution under the Lanham Act, as well as common law trademark infringement and unfair competition.¹⁹ By April 7, the parties had settled, but not before Nike secured a temporary restraining order against MSCHF.²⁰

MSCHF does not fit the image of a typical counterfeiter. The Satan Shoes are not counterfeits or knockoffs and MSCHF is not trying to pass them off as authentic Nikes because they *are* authentic Nikes. MSCHF describes itself as an “art collective,” and sometimes refers to its work as “performance art.”²¹ In other words, MSCHF had a unique opportunity to argue that in creating the Satan Shoes it sought to create works of art that comment upon Nike and collaboration culture rather than a product that

15. Andrew Chow, *Lil Nas X on 'Montero (Call Me By Your Name),' LGBTQ Repression and the Influence of FKA Twigs*, TIME (Mar. 31, 2021, 10:20 AM), <https://time.com/5950756/lil-nas-x-montero-interview> [<https://perma.cc/VKM8-8YHG>] [<https://web.archive.org/web/20221012182030/https://time.com/5950756/lil-nas-x-montero-interview>].

16. Christopher Harris, *Twitter Reacts To Lil Nas X's Satan Shoes*, REVOLT (Mar. 28, 2021, 7:07 PM), <https://www.revolt.tv/news/2021/3/28/22355648/twitter-lil-nas-x-satan-shoes> [<https://perma.cc/RE9Y-MQUU>] [<https://web.archive.org/web/20221104144144/https://www.revolt.tv/article/2021-03-28/56773/twitter-reacts-to-lil-nas-xs-satan-shoes>]; Graham Hartmann, *Lil Nas X's 'Satan Shoes' Have Sent Conservative Christian Twitter Into a Rage Spiral*, LOUDWIRE (Mar. 29, 2021), <https://loudwire.com/satan-shoes-conservative-christian-twitter-reactions-lil-nas-x> [<https://perma.cc/JB99-959R>] [<https://web.archive.org/web/20221012182248/https://loudwire.com/satan-shoes-conservative-christian-twitter-reactions-lil-nas-x>].

17. COMPLAINT at 11–13, Nike, Inc. v. MSCHF Product Studio, Inc., 2021 No. 21-cv-1679 (E.D.N.Y. Mar. 29, 2021).

18. Pietsch, *supra* note 1.

19. COMPLAINT, *supra* note 17.

20. Neil Vigdor, *Company Will Offer Refunds to Buyers of 'Satan Shoes' To Settle Lawsuit by Nike*, N.Y. TIMES (July 7, 2021), <https://www.nytimes.com/2021/04/08/style/satan-shoe-settlement-nike.html> [<https://perma.cc/R8NF-W885>] [<https://web.archive.org/web/20221012182649/https://www.nytimes.com/2021/04/08/style/satan-shoe-settlement-nike.html>].

21. Morwenna Ferrier, *Hail Satan Shoes: Why Did the 'Banksy of the Internet' Put Blood in 666 Nike Air Max?* GUARDIAN (Apr. 16, 2021, 4:00 PM), <https://www.theguardian.com/fashion/2021/apr/16/hail-satan-shoes-why-did-the-banksy-of-the-internet-put-blood-in-666-nike-air-max> [<https://perma.cc/CTD6-CWNH>] [<https://web.archive.org/web/20221012182936/https://www.theguardian.com/fashion/2021/apr/16/hail-satan-shoes-why-did-the-banksy-of-the-internet-put-blood-in-666-nike-air-max>].

would freeride off of Nike's goodwill and reputation.²² That is exactly what MSCHF argued before it settled.²³

Whether the Satan Shoes are more akin to *Medical Bill Art's* impactful artistic commentary or more like the *Cuss Collar*, an entertaining consumer product, is an intellectually valuable debate not only for cultural critics but also for the legal world. This Note will argue that authentic goods that are altered post-sale and resold primarily as works of artistic expression to sophisticated consumers should be protected by the First Amendment. In doing so, this Note will offer courts a framework for analyzing whether an altered authentic good should qualify for a First Amendment defense by determining whether the good functions more like a competing consumer product or a work of artistic expression in the marketplace. Part I of this Note will provide an overview of the relevant trademark law. Part II will discuss the legal problems posed by cases involving modified authentic goods that function like art, and the lack of relevant defenses for trademark use in that context. Part III proposes considerations for courts seeking to balance trademark owners' rights with the rights of the public to sell modified authentic goods as artistic expression. Part III also provides business considerations for those seeking to modify and resell authentic goods.

I. ALTERED AUTHENTIC GOODS IN THE CURRENT TRADEMARK LAW LANDSCAPE

Trademark law currently affords artists who alter trademark-bearing goods like sneakers thin protection at best. This section provides an introduction to Lanham Act causes of actions and defenses that are most relevant to the altered authentic goods context.

A trademark can be a word, name, symbol, or device (or some combination thereof) and must be used in commerce to distinguish an entity's goods in the marketplace.²⁴ Beyond the use in commerce requirement, trademarks must also be distinctive such that they are capable of signaling a product's unique source to consumers.²⁵

22. "A trademark is the visual symbol of the good will and reputation that a business has built up in a product or service . . . The Supreme Court noted that trademark protection 'helps consumers identify goods and services that they wish to purchase, as well as those they want to avoid.'" J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, §§ 2:14, 2:15 (5th ed. 2019) (quoting *Matal v. Tam*, 137 S. Ct. 1744, 1751 (2017)).

23. LETTER REGARDING PLAINTIFF'S MOTION FOR A TEMPORARY RESTRAINING ORDER BY MSCHF PRODUCT STUDIO, INC.COM, Nike, Inc. v. MSCHF Product Studio, Inc., 2021 No. 21-cv-1679 (E.D.N.Y. Mar. 31, 2021).

24. 15 U.S.C. § 1127.

25. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768–69 112 S. Ct. (1992). Trademarks are categorized on a distinctiveness spectrum, from arbitrary and fanciful marks, which are the most distinctive, to generic marks, which are not distinctive and do not receive Lanham Act protection. Some marks are inherently distinctive, including all arbitrary, fanciful, and suggestive marks. An inherently distinctive mark is protected under the Lanham Act from its first use in commerce. Other marks, such as certain descriptive marks, are protectible only after they have acquired secondary meaning in the relevant market. Marks that are arbitrary, fanciful, or suggestive are inherently distinctive. See MCCARTHY, *supra* note 22, at § 11.

Trademarks are a form of intellectual property protected by federal law under the Lanham Act and by state statutory and common law.²⁶ In his treatise on trademarks and unfair competition, J. Thomas McCarthy notes that trademarks confer a property right to their owners because they grant a right to exclude, but unlike the right conferred by copyright or patent protection, a trademark's property right is inextricable from the goodwill for which the trademark stands.²⁷ Goodwill is therefore a key consideration in trademark law, and is reflected in trademark law's twin goals.²⁸

A. TRADEMARK LAW'S TWIN GOALS

Trademark owners like Nike rely on their trademarks to communicate and maintain their reputation in the marketplace, whether that be for providing high-quality products, discounted prices, sustainable practices, or other desirable qualities. Consumers also rely on trademarks when making decisions about which products to purchase and where to purchase them. The essential goals of trademark law therefore boil down to two categories of protection: consumer protection and trademark owner protection.²⁹

1. Consumer Protection

The consumer protection goal is reflected in much of the Lanham Act, as well as in judge-made trademark doctrines like the circuit courts' likelihood-of-confusion tests.³⁰ Consumer protection takes two primary forms: protection against exorbitant search costs and protection against confusion.

26. Trademark Act of 1946, 15 U.S.C. §§ 1051–1141 (2021); MCCARTHY, *supra* note 22, § 22:1.

27. MCCARTHY, *supra* note 22, §§ 2:14, 2:15 (5th ed. 2019).

28. *But see generally* Irene Calboli, *Trademark Assignment "With Goodwill": A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771 (2005) (arguing for free trademark transferability and an end to the rule against assignment in gross, which requires that trademarks continue to be used for similar products after they are assigned or transferred such that the trademarks retain their goodwill). For a summary of judicial constructions of goodwill and goodwill valuation methods, especially in the franchising context, see generally W. Michael Garner & Elliot R. Ginsburg, *Nailing the Blob of Mercury: Goodwill in Franchising*, 33 No. 2 FRANCHISE L.J. 149, 150 (2013) (proposing "a method for ascribing and allocating the value of goodwill between franchisor and franchisee").

29. MCCARTHY, *supra* note 22, at §§ 2:1, 2:2; *see also* Zippo Mfg. Co. v. Rogers Imports, Inc., 216 F. Supp. 670, 694 (S.D.N.Y. 1963) ("The law of unfair competition has traditionally been a battleground for competing policies. The interest of the public in not being deceived has been called the basic policy.")

30. *See, e.g.*, Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492 (2d Cir. 1961) (developing an eight-factor likelihood of confusion test used to determine whether trademark infringement has occurred by analyzing the strength of the senior user's mark, the two marks' similarity, the products' proximity, the likelihood that the senior user will bridge the gap, actual confusion, defendant's good faith in adopting its mark, defendant's product quality, and the relevant consumers' sophistication); *see also* Dustin Marlan, *Is the Word "Consumer" Biasing Trademark Law?*, 8 TEX. A&M L. REV. 367, 369–70 (2021) ("As 'a form of consumer protection,' each of trademark law's major doctrines revolves around consumer perceptions, thus identifying the consumer as the source of all of its internal boundaries. . . . To this end, all of trademark law's doctrines invoke the consumer mindset.") (internal citation omitted).

First, trademarks reduce search costs for consumers.³¹ Because trademarks assist consumers in identifying a product's source, consumers can learn to trust that a particular brand will deliver a certain level of quality or a certain kind of product with some consistency. For example, a consumer who prefers the taste of Coca-Cola will not have to spend time researching which cola at the grocery store will deliver the same taste because they can simply look for the Coca-Cola trademark and know that the product bearing it will taste the same every time.³²

Relatedly, trademarks protect consumers from confusion and deception as to a product's source.³³ Consumer confusion occurs when a consumer believes a product comes from one brand when it actually comes from another. Expanding upon the previous example, if a consumer wishes to purchase Coca-Cola but the Coca-Cola bottles are sold on a grocery store shelf next to a product bearing a confusingly similar trademark (say, Coco-Cola), that consumer might mistakenly purchase a bottle of Coco-Cola when they believed they were purchasing Coca-Cola. Such confusion can result in everything from minor inconvenience to serious safety risks.³⁴ Imagine, for example, a consumer who mistakenly purchases a makeup compact from a company called Chanel, thinking they have purchased a high-quality Chanel product, who later breaks out in a rash due to the Chanel product's unsafe ingredients.³⁵ While such confusion can harm consumers in terms of search costs and, in extreme circumstances, in terms of their health and safety, consumer confusion can also harm trademark owners.

2. Trademark Owner Protection

In addition to facilitating consumer protection, trademarks also allow entities to protect their brand identities.³⁶ A brand's goodwill, as maintained and made

31. *Id.* at 369 (“According to the dominant law-and-economics-based account of trademark law, the ‘fundamental purpose of a trademark is to reduce *consumer* search costs by providing a concise and unequivocal identifier of the particular source of particular goods.”); *see also*, MCCARTHY, *supra* note 22, § 2:5 (“[T]rademarks reduce the buyer’s cost of collecting information about goods and services by narrowing the scope of information into brand segments rather than have the buyer start a new search process with each purchase.”).

32. *See* Robert G. Bone, *Enforcement Costs and Trademark Puzzles*, 90 VA. L. REV. 2099, 2105–06 (2004) (using the Coca-Cola example to demonstrate how trademarks save consumers search costs).

33. MCCARTHY, *supra* note 22, § 2:22.

34. *See* David A. Simon, *Trademark Law & Consumer Safety*, 72 FLA. L. REV. 673, 694 (2020) (“trademark law sometimes must confront risks to consumer safety. Where confusingly similar trademarks might pose physical harm to the consumer, courts have been willing to lower the standard of liability to prevent the risk from materializing.”).

35. *See, e.g.*, Julianna McDermott, *Counterfeit Makeup: The Dangers of Buying Knockoff Beauty Products*, HUFFPOST (May 21, 2015, 11:54 AM), https://www.huffpost.com/archive/ca/entry/counterfeit-makeup-the-dangers-of-buying-knockoff-beauty-product_n_7356884 [<https://perma.cc/Y5QL-4FK4>] [https://web.archive.org/web/20221116184304/https://www.huffpost.com/archive/ca/entry/counterfeit-makeup-the-dangers-of-buying-knockoff-beauty-product_n_7356884].

36. MCCARTHY, *supra* note 22, § 2:2 (noting that “[t]rademark law serves to protect consumers from deception and confusion over trademarks as well as to protect the plaintiff’s infringed trademark as property”); *see also* Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 782 (1992) (“The purpose underlying any trade-mark statute is twofold. One is to protect the public . . . Secondly, where the owner of a trade-mark

recognizable by its trademarks, is a financially valuable asset.³⁷ The value of this intangible asset depends heavily on a brand's reputation among consumers.³⁸ A powerful reputation can lead to greater consumer loyalty, and greater consumer loyalty can lead to lower customer acquisition costs.³⁹ Trademarks are thus essential to competing in modern markets, and trademark owners therefore have a vested interest in protecting their trademarks from losing their distinctiveness or their reputation.

B. THE FIRST AMENDMENT AND TRADEMARK LAW

Trademark law's twin goals do not always exist in perfect harmony with First Amendment interests. Where trademark law strives to protect consumers and trademark owners, "the goal of free speech [is] to create a zone of open social, artistic, political and commercial expression."⁴⁰ In some trademark infringement cases, courts are therefore tasked with balancing free speech principles with trademark owners' rights.

Trademarks themselves are protected as speech, although courts usually consider trademarks "commercial speech," a category that is afforded less protection than expressive speech under the First Amendment.⁴¹ Unauthorized trademark uses are sometimes protected as speech if they appear in works of artistic expression,⁴² parodies (including parody products),⁴³ or advertisements.⁴⁴ While trademark owners might argue that such uses amount to infringement, courts are often wary of allowing trademark rights to trump First Amendment liberties.⁴⁵

has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.") (quoting S. Rep. No. 1333, at 3 (1946)).

37. Glenn Perdue, *Trademarks, Brands and Goodwill: Overlapping Sources of Economic Value*, 53 LES NOUVELLES 258, 258 (2018) ("There is great consensus in the worlds of marketing, economics and accounting that intangible assets associated with trademarks, brands and goodwill create value—value that arises from market awareness, relationships with customers and a good reputation.").

38. *Id.* at 259–60.

39. *Cf.* MCCARTHY, *supra* note 22, § 2:5 (Consumer brand preference is not irrational because it reduces valuable search costs. Consumer brand preference also lowers customer acquisition costs: customers with brand preferences are likely to buy from their preferred Brand X, even if Brand Y offered a similar product at a lower price because buying from Brand Y would present some risk, even if that risk is minimal. Thus, Brand X would not have to acquire new customers in the same way that Brand Y would).

40. MCCARTHY, *supra* note 22, § 31:139.

41. MCCARTHY, *supra* note 22, § 31:140 ("All courts agree that while commercial speech, such as a trademark, is within the First Amendment, it receives a lesser degree of protection than expressive speech.").

42. *See, e.g.*, E.S.S. Ent. 2000, Inc. v. Rock Star Videos, Inc., 547 F.3d 1095 (9th Cir. 2008) (affirming a summary judgment grant holding that a strip club's suit for trademark and trade dress infringement should be dismissed because defendant video game creator's in-game depiction of a Los Angeles strip club was not explicitly misleading and therefore entitled to First Amendment protection).

43. *See, e.g.*, Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC, 507 F.3d 252 (4th Cir. 2007) (finding that a dog toy company's use of name "Chewy Vuitton" did not infringe luxury fashion brand's trade dress because it was a parody).

44. *See, e.g.*, MasterCard Int'l, Inc. v. Nader 2000 Primary Comm., Inc., No. 00 Civ.6068(GBD), 2004 WL 434404 (S.D.N.Y. Mar. 8, 2004) (finding that a presidential candidate's use of slogans similar to plaintiff's service marks did not constitute trademark infringement or dilution because there was no likelihood of confusion and because the defendants' slogans were political rather than commercial speech).

45. William McGeveran, *Four Free Speech Goals for Trademark Law*, 18 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1205, 1206 (2008) ("[T]he eventual decisions in almost all recent controversial cases protected

McCarthy observes that there are two dominant indicators that a trademark owner's rights will override a trademark user's First Amendment rights when the trademark is used in a work of artistic expression. First, when the trademark "visually dominates or is the focal point of the art work" and second, "when reproductions of the art work are sold in commercial quantities or when reproductions appear on a commercial article, such as a calendar, tote bag or coaster."⁴⁶ Such uses are more likely to cause consumer confusion as to the source of a product or as to the trademark owner's affiliation with the artwork.⁴⁷ Nevertheless, a junior user may still prevail when both factors are present if they are a well-known artist or if their artwork's consumers are highly sophisticated.⁴⁸ Either would reduce the likelihood of consumer confusion and thus dampen concerns that courts typically have about damaging a trademark owner's reputation. These potential indicators aside, the mixed trademark-First Amendment jurisprudence is relatively murky, and there are no settled rules in this area of the law.⁴⁹

C. RELEVANT LANHAM ACT CAUSES OF ACTION

Trademark owners like Nike can assert their rights through a variety of causes of action. In the altered authentic goods context, the most relevant causes of action are trademark infringement and trademark dilution.

1. Trademark Infringement: Likelihood of Confusion

The statutory basis for trademark infringement of a registered trademark is 15 U.S.C. § 1114, and the key question in any trademark infringement action is whether the defendant is likely to cause consumer confusion through its use of the plaintiff's trademark.⁵⁰ Likelihood of confusion is also at the heart of false designation of origin claims, which allow trademark owners to assert trademark infringement claims for trademarks not registered on the U.S. Patent and Trademark Office ("USPTO")'s principal register.⁵¹

speech, just as the Ninth Circuit did in Freecycle. When courts finally reach the merits, these cases suggest, the defendant's free speech arguments ultimately carry the day.").

46. MCCARTHY, *supra* note 22, § 10:22.10.

47. *Id.*

48. *Id.*

49. Stephanie Dotson Zimdahl, *A Celebrity Balancing Act: An Analysis of Trademark Protection Under the Lanham Act and the First Amendment Artistic Expression Defense*, 99 NW. U. L. REV. 1817, 1827 (2005) ("American courts have yet to develop and adopt a singular approach for striking th[e] balance [between First Amendment rights and trademark rights], and there is continued disagreement between both appellate courts and commentators on how this should be accomplished."); *see also* McGeveran *supra* note 45, at 1210–11 (noting that the balancing occurs at various stages in the life of any trademark, including when a court assesses the initial distinctiveness requirement for trademark protection and during the likelihood-of-confusion test in an infringement case, but observing that a recent expansion of trademark rights has undermined courts' ability to truly balance trademark and First Amendment rights).

50. Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CAL. L. REV. 1581, 1582 (2006) (noting that the likelihood of confusion question is "the overriding question in most federal trademark infringement litigation"); MCCARTHY, *supra* note 22, § 23:1 ("In almost all aspects of trademark law, 'likelihood of confusion' is the test of infringement and of the scope of rights in a trademark.").

51. 15 U.S.C. § 1125(a)(1)(A); MCCARTHY, *supra* note 22, § 27:12.

In trademark infringement cases, courts use up to thirteen factors to analyze whether consumers are likely to be confused as to the source of an alleged infringer's goods and services.⁵² The factors are slightly different in each circuit, but they analyze such issues as the strength of the senior user's mark, the similarity of the marks, evidence of actual consumer confusion, and the sophistication of the relevant consumer group.⁵³ Likelihood-of-confusion tests attempt to serve both of the major trademark law goals, but the overall inquiry primarily serves to protect consumers from confusion and deception as to the source of a product.⁵⁴

2. Trademark Infringement: Counterfeit Products

Counterfeit products use a registered trademark or "a spurious designation that is identical with, or substantially indistinguishable from, a designation" that the Lanham Act protects without authorization from the trademark holder.⁵⁵ Trademark counterfeiting occurs where defendants intentionally and substantially copy a genuine trademark or where defendants are willfully blind to such substantial copying.⁵⁶

Counterfeiting is a very serious matter. As McCarthy puts it, "counterfeiting is 'hard core' or 'first degree' trademark infringement and is the most blatant and egregious form of 'passing off.'"⁵⁷ Counterfeiting is so illicit that a defendant found to have committed this kind of trademark infringement is liable to incur criminal penalties.⁵⁸ As a civil penalty, the Lanham Act also allows for treble damages for the use of a counterfeit mark.⁵⁹ The trademark counterfeiting cause of action protects consumers from deception and trademark owners from theft of their intellectual property.⁶⁰

52. In re E.I. du Pont de Nemours & Co., 476 F.2d 1357, 1361 (C.C.P.A. 1973) (each circuit has a different number of factors in its likelihood-of-confusion test, but the Federal Circuit has the most at thirteen).

53. MCCARTHY, *supra* note 22, § 24:30–24:43.

54. See Anne M. McCarthy, Note, *The Post-Sale Confusion Doctrine: Why the General Public Should Be Included in the Likelihood of Confusion Inquiry*, 67 *FORDHAM L. REV.* 3337, 3337 (1999) (acknowledging that, in an effort to protect trademark owners' goodwill, courts have sometimes found confusion "in cases where the actual likelihood of confusion was quite slim"); Marlan, *supra* note 30, at 393 (arguing that trademark law's expansion of its likelihood-of-confusion analysis and courts' willingness to find infringement even where consumers have been confused but not harmed have been justified by the "thinly veiled guise of consumer protection").

55. 15 U.S.C. § 1116(d)(1)(B).

56. Chanel, Inc. v. Gordashevsky, 558 F. Supp. 2d 532, 536 (D.N.J. 2008) ("To establish federal trademark counterfeiting, the record must establish that (1) defendants infringed a registered trademark in violation of the Lanham Act, 15 U.S.C. § 1114(1)(a), and (2) intentionally used the trademark knowing that it was counterfeit or was willfully blind to such use.").

57. MCCARTHY, *supra* note 22, § 25:10.

58. MCCARTHY, *supra* note 22, § 25:14. Congress passed the Trademark Counterfeiting Act of 1984 in response to a wave of international trademark counterfeiting. *Id.* The Act is codified at 18 U.S.C. § 2320 and criminalizes intentional trafficking in goods and services and knowingly using a counterfeit mark in connection to those goods or services, among other things. 18 U.S.C. § 2320(a). Penalties for a first offense not involving serious bodily injury or death committed by an individual include a fine of not more than \$2,000,000, a ten-year prison sentence, or both. 18 U.S.C. § 2320(b)(1)(A).

59. 15 U.S.C. § 1117(b).

60. G. Trenton Hooper & Janna M. Wittenberg, *Counterfeiting and the Myth of the Victimless Crime*, 4 *LANDSLIDE* 41, 41–42 (2011) (arguing that the major policy concern with counterfeiting is the ability to

3. Dilution

Trademark dilution can occur when a junior user uses a famous mark on unrelated goods without authorization in such a way that is not likely to cause confusion but instead is likely to have “a weakening or reduction in the ability of a famous mark to distinguish only one source.”⁶¹ Unlike trademark infringement, trademark dilution claims can only be brought by owners of famous trademarks.⁶²

Famous mark users (like Nike) can seek injunctions against defendants whose use of their mark in commerce is likely to cause dilution.⁶³ There are two categories of trademark dilution. Dilution can be by blurring, meaning that the defendant’s use is likely to dilute the famous mark’s distinctiveness in the market.⁶⁴ Dilution can also be by tarnishment, meaning that the defendant’s use is likely to harm the famous mark’s reputation in the eyes of consumers.⁶⁵

Unlike in the trademark infringement context in which likelihood-of-confusion and other consumer-protection inquiries are key to finding infringement, the trademark dilution cause of action only protects trademark owners.⁶⁶

4. The Difference Between Counterfeits, Knockoffs, and Altered Authentic Goods

Counterfeit goods are always in violation of the Lanham Act.⁶⁷ Counterfeiters use Lanham Act-protected trademarks (or close imitations of the marks) without authorization from the trademark holder in an attempt to pass merchandise off as

protect a brand’s reputation and goodwill, but that consumer protection is also a critical concern). *But cf.* Connie Davis Powell, *We All Know It’s a Knock-Off? Re-Evaluating the Need for the Post-Sale Confusion Doctrine in Trademark Law*, 14 N.C. J.L. & TECH. 1, 2 (2012) (arguing that many consumers desire counterfeit products and that such consumers are not deceived and are therefore in less need of protection).

61. MCCARTHY, *supra* note 22, § 24:67.

62. MCCARTHY, *supra* note 22, § 24:104 (“Under both state and federal antidilution laws, the general rule is that only very well-known and strong marks need apply for the extraordinary scope of exclusivity given by antidilution laws. Under the 2006 revised federal [Trademark Dilution Revision Act], in order to be ‘famous,’ a mark must be ‘widely recognized by the general consuming public of the United States’ as a designation indicating a single source of goods or services. That is a difficult and demanding requirement. As the Federal Circuit observed: ‘It is well-established that dilution fame is difficult to prove.’”) (quoting *Coach Services, Inc. v. Triumph Learning LLC*, 668 F.3d 1356, 1373 (Fed. Cir. 2012)).

63. 15 U.S.C. § 1125(c).

64. 15 U.S.C. § 1125(c)(2)(B).

65. 15 U.S.C. § 1125(c)(2)(C).

66. Clarisa Long, *Dilution*, 106 COLUM. L. REV. 1029, 1030–31 (2006) (“Prior to the advent of this form of protection, the owner of a mark could recover for trademark infringement under the Lanham Act only if the commercial use of its mark by someone else caused consumer confusion. By contrast, dilution grants trademark holders a remedy for the use of their famous marks by another even when consumers are not confused.”); MCCARTHY, *supra* note 22, § 24:72 (“Dilution Law Does Not Protect Consumers from Being Deceived. Traditional trademark law rests primarily on a policy of protection of customers from mistake and deception, while antidilution law more closely resembles an absolute property right in a trademark. Antidilution law has a strong resemblance, not to the law of consumer protection, but to the law of trespass on property.”).

67. ANNIE GILSON LALONDE, 1 GILSON ON TRADEMARKS § 5.19(2)(a) (2022) (noting that “all counterfeits infringe, but not all infringements are counterfeit”).

genuine.⁶⁸ In order to find that a mark is counterfeit, the Lanham Act requires a high degree of similarity between the genuine mark and the counterfeit mark (“identical with or substantially indistinguishable from”).⁶⁹ The likelihood of confusion in counterfeit cases is therefore high.

Knockoff goods can be counterfeit goods if they use counterfeit marks, but they can also be legal imitations of a brand’s general style.⁷⁰ A knockoff product that does not use a counterfeit mark and is not attempting to pass as an authentic good might not violate the Lanham Act depending on whether it is likely to confuse consumers or dilute a genuine trademark or trade dress.

Altered authentic goods are authentic goods that were purchased through an authorized retailer, altered, and then resold. Unlike counterfeit and knockoff goods, altered authentic goods are not attempting to pass as authentic because they already are.⁷¹ While altered authentic goods are not the same as counterfeits or knockoffs, they can violate the Lanham Act depending on the nature of the alterations.⁷²

D. TRADITIONAL LEGAL DEFENSES: THE DIFFICULTY OF DEFENDING ARTISTIC EXPRESSION IN THE ALTERED AUTHENTIC GOODS CONTEXT

Junior users like MSCHF that are accused of trademark infringement, trademark dilution, or another Lanham Act violation can assert any of several defenses. A handful of statutory defenses are outlined in 15 U.S.C. § 1115, including assertions that a trademark has been abandoned or is functional, as well as laches, estoppel, and acquiescence. In most altered authentic goods contexts, the relevant defenses are the first sale doctrine, trademark fair use, and First Amendment defenses.

1. First Sale Doctrine

The first sale doctrine—sometimes referred to as the “exhaustion doctrine”—restricts trademark holders’ control of their products’ distribution beyond the products’ first authorized sale.⁷³ This doctrine allows someone who purchases a product to resell it on the secondhand market in most circumstances. The first sale doctrine is only a defense to the resale of goods if the goods are genuine and have not been materially altered and if the resale does not create confusion as to the product’s origin.⁷⁴

68. MCCARTHY, *supra* note 22, § 25:10.

69. 15 U.S.C. § 1116(d)(1)(B).

70. *People v. Rosenthal*, 800 N.Y.S.2d 354 (N.Y. Crim. Ct. 2003) (“[W]hile it is perfectly legal to sell merchandise that copies the design and style of a product often referred to as ‘knock-offs’ it is against the law to sell goods that bear a counterfeit trademark.”).

71. *See generally* Yvette Joy Liebesman & Benjamin Wilson, *The Mark of A Resold Good*, 20 GEO. MASON L. REV. 157, 182 (2012) (discussing the resale of unaltered, authentic goods outside of authorized distribution channels).

72. MCCARTHY, *supra* note 22, § 25:40.

73. MCCARTHY, *supra* note 22, § 25:41; *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129 (1947).

74. MCCARTHY, *supra* note 22, § 25:41. *See generally* Julie Tamerler, *Everything Isn’t Gucci: Trademark Law and the Secondhand Luxury Goods Market*, REUTERS (June 18, 2021, 4:52 PM) <https://www.reuters.com/legal/legalindustry/everything-isnt-gucci-trademark-law-secondhand-luxury-goods-market-2021-06-18> [<https://perma.cc/93D2-5JVX>] [<https://web.archive.org/web/20221104161834/https://www.reuters.com>].

Not all alterations of authentic goods are considered “material.” Courts have considered different factors when deciding whether a genuine good’s alteration is “material” enough to bar the first sale defense. There is no settled test for the material alterations exception. Factors that some courts consider include whether the alteration is likely to cause confusion, whether the alteration is likely to harm the plaintiff’s goodwill, and whether “consumers [would] consider [the alteration] relevant to a decision about whether to purchase a product.”⁷⁵

Whether an alteration counts as “material” such that it bars a first sale defense depends heavily on the facts of each case, as is evidenced by courts’ lack of bright line rules in this area. Some courts, for example, have held that altered packaging is a material alteration,⁷⁶ but other courts have held that altered packaging is not material.⁷⁷ Some courts have held that the loss of enforceable warranties is a “material” difference.⁷⁸ Other courts have found that the loss of access to customer support from a product’s original developer is not a “material” difference.⁷⁹ Some courts have attempted to supplement the factors listed above by emphasizing that alterations are material only if they impact a “necessary and integral part of the complete product.”⁸⁰

For most artists selling altered authentic goods, the first sale doctrine will be worth asserting as one possible defense, but junior users should be aware that the unpredictable “material alteration” standard is likely to bar this defense in some cases.

2. Nominative Fair Use

Nominative fair use is a judge-made defense that allows the use of a senior user’s trademark to accurately describe the senior user’s product.⁸¹ More specifically, junior

com/legal/legalindustry/everything-isnt-gucci-trademark-law-secondhand-luxury-goods-market-2021-06-18] (discussing what constitutes “material” alteration in the context of online luxury resale markets).

75. *Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC*, 562 F.3d 1067, 1073 (10th Cir. 2009).

76. *See, e.g., Davidoff & CIE, S.A. v. PLD Int’l Corp.*, 263 F.3d 1297 (11th Cir. 2001).

77. *See, e.g., Swatch S.A. v. New City, Inc.*, 454 F. Supp. 2d 1245 (S.D. Fla. 2006) (overruled on other grounds).

78. *See, e.g., Beltronics*, 562 F.3d. In *Beltronics*, the 10th Circuit upheld a preliminary injunction against a consumer electronics company, Midwest, enjoining it from selling Beltronics radar detectors with false or removed serial number labels. Midwest asserted a first sale defense in response to Beltronics’ infringement claim, but the court found that Midwest’s removal or alteration of Beltronics’ original labels constituted a material alteration because it prevented consumers from taking advantage of Beltronics’ warranties and services, which require an original serial number.

79. *See, e.g., SoftMan Prod. Co., LLC v. Adobe Sys., Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001).

80. *See, e.g., Bulova Watch Co. v. Allerton Co.*, 328 F.2d 20, 23 (7th Cir. 1964) (holding that a watch’s case and crown are necessary and integral parts of the watch, that substituting them aftermarket results in a new product entirely, and that entities must disclaim such changes to consumers).

81. *McCarthy*, *supra* note 22, § 23:11 (Nominative fair use is “a use of another’s trademark to identify the trademark owner’s goods or services. This is not an infringement so long as there is no likelihood of confusion. This has been dubbed a non-confusing ‘nominative use’ because it ‘names’ the real owner of the mark.”). Nominative fair use appeared for the first time in the 9th Circuit case *New Kids on the Block v. News America Pub., Inc.*, 971 F.2d 302 (9th Cir. 1992), when “Judge Kozinski said that it is legal to use a senior user’s trademark in a non-confusing way to identify the senior user’s goods or services.” *McCarthy*, *supra* note 22, § 23:11 (emphasis in original); *see also id.*, § 11:45 (“The nominative fair use analysis is appropriate where a defendant has used the plaintiff’s mark to describe the plaintiff’s product, even if the defendant’s ultimate goal is to describe his own product.”) (quoting *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1151 (9th Cir. 2002)).

users can assert a nominative fair use defense if they use a senior user's mark in good faith to accurately identify that senior user's product in a manner that does not cause a likelihood of confusion.⁸² For example, someone who specializes in repairing Volkswagens can use the registered trademarks "Volkswagen" and "VW" to advertise their repair services as long as the use is in good faith and not likely to cause confusion as to whether Volkswagen authorized the use of its trademarks.⁸³ Those who resell authentic goods could also rely on the nominative fair use defense depending on the circumstances, for example by advertising that they sell "genuine Brand X products."⁸⁴ However, altering an authentic good before reselling it may result in courts finding that the altered good is no longer "genuine," or that the junior user is using the mark in a manner that is likely to cause confusion or dilution.⁸⁵

Nominative fair use should not be confused with descriptive fair use. Descriptive, or "classic," fair use is an affirmative defense to trademark infringement outlined in 15 U.S.C. § 1115(b)(4).⁸⁶ A descriptive fair use is a *defendant's* use of a *plaintiff's* mark "only to describe [the defendant's] own product, and not at all to describe the plaintiff's product."⁸⁷ For instance, if an orange stand owner places the word "juicy" on its orange cartons to describe how juicy the oranges are, the stand owner is using the word "juicy" not as a mark but rather in a descriptive sense to describe its own goods. Should the orange stand owner be sued for trademark infringement by, say, Juicy Couture, the stand owner could assert a descriptive fair use defense.⁸⁸ Nominative fair use is more likely than descriptive fair use to be relevant in altered authentic goods cases because an altered authentic good's expressive worth might depend on accurately describing the good's origins. In the Satan Shoes case, for example, MSCHF would have a very difficult time arguing that it used the Nike swoosh or the term "Nike" in a descriptive sense to describe its goods. MSCHF would not be able to successfully argue that its Satan Shoes are swoosh-like or invocative of the Greek goddess Nike. However, MSCHF may wish to use the term "Nike" or the Nike swoosh in good faith to accurately communicate to consumers that the Satan Shoes are authentic Nike sneakers that have been altered post-

82. Liebesman & Wilson, *supra* note 71, at 184.

83. Volkswagenwerk Aktiengesellschaft v. Church, 411 F.2d 350 (9th Cir. 1969), *supplemented*, 413 F.2d 1126 (9th Cir. 1969).

84. MCCARTHY, *supra* note 22, § 23:11 ("Some examples of hypothetical uses that might qualify as a 'nominative fair use' are: [...] independent retailers. (e.g.,) 'We sell genuine GLUGMORE plumbing parts.'").

85. MCCARTHY, *supra* note 22, § 25:41 ("In addition, the first sale defense is not applicable where a product is distributed without being subject to the trademark owner's quality control and there is some potential defect in the product that customers would not readily be able to detect. In such cases, the product sold is not 'genuine' because [sic] not subject to the trademark owner's quality control.")

86. KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111, 114 (2004) (describing "the statutory affirmative defense of fair use to a claim of trademark infringement").

87. Cairns v. Franklin Mint Co., 292 F.3d 1139, 1151 (9th Cir. 2002).

88. See McCarthy, *supra* note 22, § 11:45 ("For example, while the term 'Adventure' when used as a mark for credit card services is probably not descriptive, if it were hypothetically used as a trademark, a junior user should be able to make a noninfringing, descriptive and nontrademark 'fair use' of that term. For example, in the author's opinion a competing credit card company should be able to claim a fair use in order to advertise: 'GO FOR AN ADVENTURE! Have an adventure in your local shopping mall with the PASSPORT brand credit card.'").

sale if this is essential to the artistic or expressive commentary that MSCHF hopes to make with its Satan Shoes drop.

Artists planning to rely on a fair use defense to avoid a trademark infringement finding should be aware that these are only a defense to non-confusing uses of a senior user's mark.⁸⁹ Therefore, in cases where the senior user has a valid likelihood of confusion claim as to the use of their mark (nominative or otherwise), artists will have to rely on other defenses.

3. First Amendment Defenses: the Right of Artistic Expression and Parody

The First Amendment affords expressive works strong constitutional protection.⁹⁰ The First Amendment right of artistic expression can be used as a defense to Lanham Act claims. In the trademark context, this defense traces its origin to right of publicity cases like *Rogers v. Grimaldi*: “the [Lanham] Act should be construed to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression.”⁹¹ Even so, “the First Amendment cannot permit anyone who cries ‘artist’ to have *carte blanche* when it comes to naming and advertising his or her works, art though it may be.”⁹² In *Rogers*, the court developed a two-part test for determining whether a trademark used in the title of an artistic work is protected by the First Amendment. A title is not protected if “(1) ‘the title has no artistic relevance to the underlying work,’ or (2) if there is artistic relevance, the title ‘explicitly misleads as to the source or the content of the work.’”⁹³ The *Rogers* test is now used beyond the context of titles, and almost all courts employ it to balance First Amendment interests against trademark owners’ interests.⁹⁴

Parody is a type of artistic expression protected by the First Amendment.⁹⁵ Parody is not an affirmative trademark defense, but a factor that courts consider in balancing trademark holders’ rights against First Amendment principles.⁹⁶ In the trademark context, a parody often comments on or criticizes the brand or product that it is parodying.⁹⁷ This pointed commentary or critique is essential to the distinction

89. McCarthy, *supra* note 22, § 23:11.

90. Zimdahl, *supra* note 49, at 1825–26 (Noting that the First Amendment protects artistic expression even when the work is sold for profit and that while courts sometimes interpret trademarks purely as forms of commercial speech, trademark enforcement can risk limiting free expression where a trademark use is not exclusively commercial speech).

91. *Rogers v. Grimaldi*, 875 F.2d 994, 999–1000 (2d Cir. 1989). In *Rogers*, the court held that the use of Ginger Rogers’ name in a film title did not amount to trademark infringement because the title counted as artistic expression due to its artistic relevance to the underlying work and was thus protected under the First Amendment. *Id.* In doing so, the court acknowledged that “[t]his construction of the Lanham Act accommodates consumer and artistic interests.” *Id.*; see also Lynn M. Jordan & David M. Kelly, *Another Decade of Rogers v. Grimaldi: Continuing To Balance the Lanham Act with the First Amendment Rights of Creators of Artistic Works*, 109 TRADEMARK REP. 833 (2019) (detailing *Rogers* test usage over the past thirty years).

92. *Parks v. LaFace Recs.*, 329 F.3d 437, 447 (6th Cir. 2003).

93. Zimdahl, *supra* note 49, at 1834 (quoting *Rogers*, 875 F.2d 994 at 999).

94. MCCARTHY, *supra* note 22, § 31:144.50.

95. Zimdahl, *supra* note 49, at 1849.

96. McCarthy, *supra* note 22, § 31:153.

97. Kathleen E. McCarthy, *Free Ride or Free Speech? Predicting Results and Providing Advice for Trademark Disputes Involving Parody*, 109 TRADEMARK REP. 691, 694 (2019) (“Essential to the categorization of a use as

between parody and satire. Where a parody must evoke a specific target in its audience's minds to successfully comment on or critique that same target, satire is a broader form of artistic expression that involves uses a target to comment or critique a wider target, like a societal trend.⁹⁸ Thus, a parody of a specific brand may require the use of that brand's trademarked name or logo in order to leave no doubt in an audience's mind as to the parody's target. A satire may be able to successfully critique or comment upon a larger societal trend without using a particular brand's name or logo. However, artists hoping to resell altered authentic goods in an effort to comment on a brand are not always entitled to a parody defense. Parodies can still infringe trademarks if they are likely to cause consumer confusion.⁹⁹

II. SAVING SATAN?

Had *Nike v. MSCHF* gone to trial, would MSCHF have been able to successfully defend its use of the famous Nike trademarks on its Satan Shoes, or would the court have found that use infringing? Although it is impossible to be sure of the court's ultimate decision, the nebulous current landscape of trademark infringement and dilution defenses makes answering this question unnecessarily difficult.¹⁰⁰

A. CURRENT TRADEMARK DEFENSES ARE INADEQUATE

From the first sale doctrine's "material" alteration exception to the artistic relevance inquiry in the *Rogers* test, defenses for those who use trademarks in artistic works lack nationally accepted standards that account for the nuances in cases where the artwork at issue is made out of a consumer good. McCarthy notes that this is a particularly tricky issue that is still evolving:

[I] at one time took the position that almost all unpermitted uses of expressive critical or parody marks on such 'commercial' goods should be an infringement and not shielded by the First Amendment. However, on reflection and the progress of the case law, I have modified my views [. . .] Imprinting a message on a T-shirt is a very common method of conveying some kind of expressive message. Is a T-shirt infringing 'merchandise' or an immune communicative medium akin to an Internet web page or a printed newspaper?¹⁰¹

'parody' under this definition is some effort by the parodist to comment upon the brand, although there are debates as to how direct or relevant to the brand any brand-related comment must be.".

98. McCarthy, *supra* note 22, § 31:153.

99. Kathleen E. McCarthy, *supra* note 97, at 700 (noting that "[a] non-infringing parody is merely amusing, not confusing").

100. See generally Michael Grynberg, *Things Are Worse Than We Think: Trademark Defenses in A "Formalist" Age*, 24 BERKELEY TECH. L.J. 897, 903 (2009) (arguing "for further development of trademark defenses," and noting that "defenses to infringement are comparatively narrow and rigid.").

101. McCarthy, *supra* note 22, § 31:152.

The “materially altered” exception for products that would otherwise be protected under the first sale doctrine is too broad to address instances in which the alterations may be protected by the First Amendment as artistic expression. A materially altered product will not always cause consumer confusion as to the product’s association (or lack thereof) with the trademark owner, nor will it always cause safety concerns or brand reputation issues.¹⁰² Similarly, the nominative fair use doctrine does not account for instances in which products are altered to the extent that they are no longer genuine originals, but where those products were described using the senior user’s trademarks in good faith in a manner that is unlikely to cause confusion. Moreover, the nominative fair use doctrine is used only in three circuits, and all three of those circuits use different tests to determine whether a use is fair.¹⁰³ Finally, right-of-artistic-expression cases (including parody cases) hinge on whether the trademark’s use was artistically relevant to the underlying work. But what should courts make of cases where the underlying work is not a painting or film but a modified version of the trademark owner’s own product? Should the test be whether the trademark use is relevant to the underlying work, or whether the modifications are relevant to the underlying work, or whether the modifications transform the product into a work of artistic expression, or something else? Courts need a test that sufficiently protects junior users’ First Amendment rights when their works of artistic expression are created using authentic consumer goods like Nike sneakers.

III. ALTERED AUTHENTIC GOODS THAT FUNCTION LIKE ART IN THE MARKETPLACE DESERVE FIRST AMENDMENT PROTECTION AS ARTISTIC EXPRESSION

The Satan Shoes straddle the line between wearable consumer goods and collectible art. They are not knockoffs or counterfeits that are likely to deceive consumers. When authentic goods are turned into a work of art that is unlikely to compete with the original trademark holder’s products or confuse consumers, the goods should be considered artistic expression and should therefore receive First Amendment protection.

102. *Id.* (citing *Smith v. Wal-Mart Stores, Inc.*, 537 F. Supp. 2d 1302, 1339–40 (N.D. Ga. 2008)) (“[A] vocal critic of the policies of Wal-Mart Stores devised parody marks consisting of twisted versions of Wal-Mart trademarks (e.g., ‘Walocaust’ and ‘Wal-Qaeda’) imprinted on items such as T-shirts, mugs, and bumper stickers as well as on the critic’s Web site [sic]. The court found on summary judgment that there was neither trademark infringement nor dilution by tarnishment [because the] critic’s messages as they appeared on goods like T-shirts were noncommercial speech.”).

103. *Liebman & Wilson, supra* note 71, at 184–86 (“[In] spite of its 20-year history, the nominative fair use defense has mostly been confined to the Third, Fifth, and Ninth Circuits, and is not well understood in any of them [...] The First, Second, and Sixth Circuits have either rejected or declined to adopt nominative fair use, 197 and other courts have yet to decide on its adoption or rejection [...] The nominative fair use defense has been criticized for its analytical defects.”).

A. A NEW TEST: WHETHER AN ALTERED AUTHENTIC GOOD FUNCTIONS LIKE ART IN THE MARKET

Courts should balance the trademark owner's interest in protecting its marks from dilution against the defendant's and the public's interest in promoting artistic expression, parody, and artistic commentary. In doing so, courts should consider whether the altered product functions more like art than a competing good in the secondhand market *as a result of the alterations*, in addition to whether the trademark's use has any artistic relevance to the underlying work (the *Rogers* test).

The function-in-the-market inquiry could help address the safety, quality control, and likelihood-of-confusion issues that might arise in modified authentic goods cases. Courts could consider (1) the number of altered goods intended for resale, (2) the goods' resale price, (3) the altered products' intended use, (4) where the goods are being resold, and (5) the goods' intended and actual purchasers, among other factors.

Under factor one, a limited number of altered products is less likely to create consumer confusion in down-market sales and is less likely to have an impact on the trademark holder's business. In the Satan Shoes case, for example, 666 pairs of Satan Shoes are a miniscule fraction of the number of shoes Nike sells per year.¹⁰⁴ This means that Nike was not likely facing serious competition from MSCHF in the sneaker market. Further, MSCHF could reasonably persuade a court that the number 666—a number associated with Satanism—was artistically relevant to the underlying work under the *Rogers* test.¹⁰⁵ On the other hand, the fact that there were 666 pairs rather than, say, ten might give courts the impression that the Satan Shoes were more like mass-manufactured custom sneakers rather than bespoke artworks and that they were therefore more likely to compete with Nike's genuine, unaltered sneakers. Such an impression might reasonably swing this factor in Nike's favor.

Under factor two, a higher price indicates that the product's alterations make the product more comparable to an exclusive piece of artwork than a traditional consumer good, as reflected by the amount that intended consumers are willing to pay. The Satan Shoes, for example, sold for \$1,018 a pair, whereas the most expensive men's shoe on Nike's website as of November 4, 2022, sells for \$305 and the Air Max 97 sells for only \$170.¹⁰⁶ This speaks to the value of MSCHF's alterations and the fact that the altered goods are unlikely to compete directly with authorized Nike products.

Under factor three, a good functions more like art in the marketplace if it will be used not as the senior user intended but rather in the manner that one would treat art.

104. Jake Woolf, *Nike Sells 25 Pairs of Sneakers Every Second*, GQ (Oct. 11, 2016), <https://www.gq.com/story/nike-business-how-many-sneakers-per-second> [<https://perma.cc/2MM4-3K9S>] [<https://web.archive.org/web/20221018041338/https://www.gq.com/story/nike-business-how-many-sneakers-per-second>].

105. 666: *The Mark of the Beast*, MERRIAM-WEBSTER, <https://www.merriam-webster.com/words-at-play/what-does-666-mean-mark-of-the-beast> [<https://perma.cc/LW5Q-PWNL>] [<https://web.archive.org/web/20221019015939/https://www.merriam-webster.com/words-at-play/what-does-666-mean-mark-of-the-beast>] (last visited Nov. 4, 2022).

106. *Men's Shoes & Sneakers*, NIKE, <https://www.nike.com/w/mens-shoes-nik1zy7ok?sort=priceDesc> [<https://web.archive.org/web/20221104164545/https://www.nike.com/w/mens-shoes-nik1zy7ok?sort=priceDesc>] (last visited Nov. 4, 2022).

In the Satan Shoes case, the Satan Shoes are sneakers, which means that they can be worn. This fact might favor Nike as it could conceivably increase the likelihood that the products would be worn as Nike intended rather than being displayed as art as perhaps MSCHF intended. Consumers choosing to wear the Satan Shoes could increase the likelihood of confusion and the likelihood that the Satan Shoes would compete directly with Nike's authorized sneakers, and this could arguably create consumer safety hazards.¹⁰⁷ However, while some might wear their Satan Shoes after purchasing them, this would negatively impact their resale value, and buyers are more likely to keep their shoes in pristine condition to preserve their value either as collector's items or as items to be resold for a profit.¹⁰⁸ If a court found that most people were treating the shoes more as collectible art, the products would function more like art than consumer goods, which would place this factor firmly in MSCHF's favor. On the other hand, even if the initial purchasers kept the shoes in pristine condition for resale, the secondary (and even tertiary) purchasers might actually wear the shoes, not knowing whether they are genuine Nikes or altered artistic works. The potential for down-market confusion and competition could swing this factor in Nike's favor.

Under factor four, altered goods that are resold not alongside genuine or competing goods but rather on their own in more exclusive settings might function more like art in the marketplace than consumer goods. For example, the Satan Shoes were sold online over the course of a few seconds through MSCHF's website. Purchasers were not encountering them on shelves next to non-modified genuine Nike sneakers. Additionally, sneakers are emerging as a popular new category in the art world, and the Satan Shoes could someday find themselves in a museum or on auction at Sotheby's.¹⁰⁹ Under the conditions that MSCHF created for the Satan Shoes' drop, this factor would likely favor MSCHF. However, had MSCHF sold the Satan Shoes in a pop-up shop alongside genuine, unaltered Nike sneakers, the products would function more like competing goods, in which case this factor would likely swing in Nike's favor.

Finally, under factor five, the more sophisticated the consumer, the less likely the consumer is to be confused as to the source of the altered goods or as to their association

107. Imagine someone purchases a pair of Satan Shoes mistakenly believing that MSCHF's design was authorized by Nike. Now imagine that the blood allegedly injected into the Satan Shoes somehow corroded the shoes' treads, causing the purchaser to slip, fall, and break their arm. The purchaser, mistakenly believing that Nike is responsible for this design defect, sues Nike and takes to social media to accuse Nike of having lax consumer safety standards. It is reasonable for Nike to try to avoid such a scenario and others like it by preventing artistically altered versions of its sneakers from reaching consumers. However, the more Satan Shoes purchasers treat the shoes like art rather than consumer goods, the less likely such an event is to occur.

108. Maria Bobila & Eric Hardwood, *Nylon Fit Picks: Miley Cyrus' "Satan Shoes," Rihanna in Rick Owens, & More Celebrity Looks*, NYLON (Mar. 29, 2021, 12:22PM) <https://www.nylon.com/fashion/miley-cyrus-wore-lil-nas-x-mschf-satan-sneakers> [<https://perma.cc/AK78-ZDC6>] [<https://web.archive.org/web/20221104164715/https://www.nylon.com/fashion/miley-cyrus-wore-lil-nas-x-mschf-satan-sneakers%20>] (detailing how Miley Cyrus wore a pair of Satan Shoes); Christina Binkley, *Sneakerheads Are the Targets of a New Million-Dollar Category for Auction Houses. Can a Shoe Be a Work of Art?*, ARTNEWS (Jan. 23, 2022, 11:46AM), <https://www.artnews.com/art-news/news/sneakers-auction-house-category-1202676047> [<https://perma.cc/FEE7-VQXZ>] [<https://web.archive.org/save/https://www.artnews.com/art-news/news/sneakers-auction-house-category-1202676047>] (explaining the value of sneakers when sold as collectible art).

109. *Id.*

with the senior user, which would also lessen the chance of dilution.¹¹⁰ Satan Shoes purchasers had to be highly sophisticated to learn about MSCHF's drop in time to purchase the shoes and to be willing to invest more than a thousand dollars in a pair of sneakers. Such customers could reasonably be expected to be familiar with MSCHF and its previous work and to recognize that MSCHF's Satan Shoes were not genuine Nikes but artistic works whose alterations were necessary to make the social commentary that MSCHF sought to express through that particular drop.

Together, these facts might point to an altered authentic product that is likely to function more like art in the downstream market than like a competing consumer good. If a court determines that an altered authentic good functions more like art than a regular consumer good in the marketplace, the court can then apply the *Rogers* test to determine whether the trademark use was artistically relevant to the artistic expression. In *Nike v. MSCHF*, MSCHF argued that it used Nike's mark to comment on the explosion in popularity of collaboration culture that brands like Nike often participate in, and thus that the mark's use had artistic relevance to the underlying work's goal.¹¹¹ MSCHF did not specifically invoke the *Rogers* test, but had the case proceeded to trial this argument may have had merit under that test. On the other hand, perhaps MSCHF's commentary was more satire than parody, and MSCHF may have been able to make the same impact with its work without using Nike's exact trademark. However, even using a similar but slightly different trademark (like a backwards swoosh or a more angular check mark) could have landed MSCHF in court, as "colorable imitations" of registered trademarks that cause a likelihood of confusion are actionable under the Lanham Act as trademark infringement.¹¹² Further, if the goal of creating 666 pairs of Satan Shoes was to comment on the absurdity of collaboration culture, it would be hard to find a better target than Nike to facilitate this kind of artistic expression, and using a fake trademark from a fake brand would not have had the same artistic impact.¹¹³

110. See Thomas R. Lee et. al., *Trademarks, Consumer Psychology, and the Sophisticated Consumer*, 57 EMORY L.J. 575, 575 (2008) ("In trademark law, 'everything hinges upon whether there is a likelihood of confusion in the mind of an appreciable number of 'reasonably prudent' buyers.' Where the ordinary consumer is deemed sufficiently 'sophisticated' to discern differences between two competing marks, the law forecloses protection for the senior trademark.") (quoting J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 23:91 (4th ed. 2007)).

111. LETTER REGARDING PLAINTIFF'S MOTION FOR A TEMPORARY RESTRAINING ORDER BY MSCHF PRODUCT STUDIO, INC. at 2-3, *Nike, Inc. v. MSCHF Product Studio, Inc.*, 2021 No. 1:21-cv-01679-EK-PK (E.D.N.Y. Mar. 31, 2021).

112. 15 U.S.C. § 1114(1).

113. Nike has a long history of brand collaboration that has likely contributed to its unparalleled success in the sneakers market. See, e.g., Felix Richter, *Nike Reigns Over the Sneaker World*, STATISTA.COM (May 4, 2022), <https://www.statista.com/chart/13470/athletic-footwear-sales> [<https://perma.cc/V89W-LJ8G>] [<https://web.archive.org/web/20221201203104/https://www.statista.com/chart/13470/athletic-footwear-sales>]; Yang-Yi Goh, *The 50 Greatest Sneaker Collaborations in Nike History*, GQ (Aug. 22, 2022), <https://www.gq.com/story/nike-50-greatest-sneaker-collaborations> [<https://perma.cc/55SZ-ECPY>] [<https://web.archive.org/web/20221016222519/https://www.gq.com/story/nike-50-greatest-sneaker-collaborations>]; Megan O'Sullivan, *From Sacai to Jacquemus: 14 Nike Sneaker Collabs to Know and Shop*, VOGUE, <https://www.vogue.com/article/14-nike-sneaker-collabs-to-know-and-shop> [<https://perma.cc/T7HL-T2BU>] [<https://web.archive.org/web/20221201203337/https://www.vogue.com/article/14-nike-sneaker-collabs-to-know-and-shop>] (last visited Dec. 1, 2022).

B. BUSINESS CONSIDERATIONS FOR ARTISTS ALTERING TRADEMARKED GOODS

All trademark owners have a right to protect their trademarks, and trademark owners often have a strong incentive to do so as a lack of enforcement could lead to loss of goodwill or even trademark genericide, which would result in losing trademark protection entirely.¹¹⁴ Artists working with altered authentic goods should determine whether it is worth including a trademark-bearing good in their work in the first place or whether the risk of liability outweighs the artistic impact of altering and reselling such a good. If the trademark is absolutely necessary to the artist's artistic goals, artists could consider licensing the trademark from its owner before using it. Of course, this option is not always feasible, as licensing can be an expensive and time-consuming pursuit.¹¹⁵ Further, if an artist seeks to criticize or parody a brand through its work, the brand might not be amenable to licensing its trademark for that use.

If licensing is not an option, as it may not be in the vast majority of these cases, artists working with altered authentic goods should strongly consider selling or displaying their work with a disclaimer. Prominent and informative disclaimers can help prevent potential consumer confusion and trademark dilution because they put consumers on notice that the trademark owner is not associated with the work and did not authorize it.¹¹⁶

Finally, if both a license and a disclaimer would be anathema to the artist's artistic goals, the artist should ensure that when turning modified trademarked goods into artworks, they satisfy the function-in-the-market test to the best of their ability. Artists should create as few works as possible using trademarked goods to bolster the perception that their works are works of art rather than competing consumer goods. They should also offer their works at a resale price markedly different from the price that the trademarked good is usually sold for to reflect that their work is no longer a competing product, but rather a work of artistic expression whose value depends primarily on the artist's alterations. Further, artists should alter their works so that the trademarked goods are unlikely to be used (or are impossible to use) as originally

114. Mark A. Lemley, *Fame, Parody, and Policing in Trademark Law*, 2019 MICH. STATE L. REV. 1 (2019) ("If [trademark owners] don't aggressively enforce their marks, they worry that the value of their marks will be weakened by multiple, conflicting uses. In extreme cases, they worry that they will lose their marks altogether by having courts deem them generic or abandoned or else lose the right to enforce them through laches.").

115. See Daniel Klerman, *Trademark Dilution, Search Costs, and Naked Licensing*, 74 FORDHAM L. REV. 1759, 1767–68 (2006) (discussing the transaction costs associated with licensing in the context of the naked licensing doctrine).

116. See, e.g., *Anheuser-Busch, Inc. v. Balducci Publications*, 28 F.3d 769 (8th Cir. 1994) (holding that Balducci publications infringed and diluted Anheuser-Busch's trademark by including a mock advertisement for "Michelob Oily" on the back page of its humor magazine and rejecting Balducci's First Amendment parody argument because the included disclaimer was "virtually undetectable"). "By using an obvious disclaimer, positioning the parody in a less-confusing location, altering the protected marks in a meaningful way, or doing some collection of the above, Balducci could have conveyed its message with substantially less risk of consumer confusion." *Id.* at 776. "By taking steps to insure that viewers adequately understood this was an unauthorized editorial, Balducci might have avoided or at least sharply limited any confusion, and thereby escaped from liability. Absent such measures, Balducci's ad parody was likely to confuse consumers and fall subject to federal trademark law." *Id.*

intended. Artists should be careful, however, not to create any health and safety concerns for the work's consumers, viewers, or audiences. Finally, artists should market and sell their works to those who are most likely to understand that they are buying art from the artist rather than a competing good or a good authorized by the trademark owner.

It is impossible to say whether MSCHF could have avoided liability had the *Nike v. MSCHF* case gone to trial or had MSCHF created a different version of their Satan Shoes. However, MSCHF could have laid a stronger First Amendment foundation for its Satan Shoes had it created one pair rather than 666, and had it altered the Satan Shoes such that they would have been impossible to use as sneakers. One pair of impossible-to-wear Satan Shoes potentially would have satisfied MSCHF's artistic goal of commenting on big brands' collaboration culture without causing as much opportunity for confusion and dilution. Those looking to make artistic works by altering trademarked goods without inviting litigation are advised to express their artistic viewpoints without creating works that consumers are likely to perceive as competing goods.

IV. CONCLUSION

The importance of artists' constitutional First Amendment rights should not be erased when the medium of artistic expression is an authentic, trademarked consumer good like a pair of sneakers. Trademark owners do have legitimate concerns in these contexts as to whether consumers will be aware that the alterations were unauthorized before purchasing the goods secondhand,¹¹⁷ whether the unauthorized alterations could pose a safety hazard for consumers or a quality control issue for brands,¹¹⁸ and whether the unauthorized alterations will negatively impact the brand's goodwill or reputation in the eyes of consumers.¹¹⁹ Nevertheless, courts need a better test to balance the two mighty interests at play in these cases, and a test that asks whether an altered authentic good functions enough like art in the market to warrant a *Rogers*-like inquiry could provide essential guidance in an increasingly important area of trademark law.

117. See, e.g., *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 67 S. Ct. 1136 (1947) (upholding an injunction against selling repaired and reconditioned sparkplugs bearing the plaintiff's mark unless notice was given to consumers that the products were repaired secondhand and were not new).

118. See, e.g., *Suzuki Motor Corp. v. Jiujiang Hison Motor Boat Mfg. Co.*, No. 1:12-CV-20626, 2012 WL 529967 (S.D. Fla. Feb. 17, 2012) (granting Plaintiff's motion for a temporary restraining order against defendant's use of a genuine Suzuki motor made for snowmobiles in a boat because of the potential harm to plaintiff's brand. The court also noted that consumers could be physically harmed when using the motor in a context for which it wasn't designed to be used.).

119. See, e.g., *PepsiCo, Inc. v. #1 Wholesale, LLC*, No. 07-CV-367, 2007 WL 2142294 (N.D. Ga. July 20, 2007) (ordering an injunction against defendant's use of Pepsi products as "can safes" that look like canned soft drinks but contain an unidentified liquid and hidden compartments that can be used to stash illicit items because the products were likely to cause dilution by tarnishment).

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