



When Does Federal Copyright Law Preempt State Contract Law?

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One of the thorniest problems in copyright jurisprudence is: When does federal copyright law preempt state contract law? Recent decisions by the state appellate courts and the Ninth Circuit have added a degree of clarity to this complex issue. The Copyright Act of 1976 (the "Act") grants to a copyright owner the exclusive right to reproduce, perform, distribute or display the copyrightable material. The avowed purpose of the Act was to create a *uniform* national copyright law, and to the extent that enforcement of the rights provided for by the Act are at issue, all competing state law claims are preempted. Section 301, subdivision (a) of the Act expressly preempts state laws that are equivalent to any of the exclusive rights within the general scope of the Act. On the other hand, Section 301, subdivision (b) of the Act expressly grants to the states the right to regulate activities violating rights that are not equivalent to any of the exclusive rights within the scope of the Act.

This duality in the Act has led to a certain degree of tension between state and federal courts as the state courts have been reluctant to relinquish their former power to adjudicate copyright claims, and because of the ambiguity surrounding the question of when is a state contract claim one which seeks to enforce a right equivalent to federal copyright protection and is therefore preempted.

Professor David Nimmer has observed that "in essence a right that is equivalent to copyright is one that is infringed by the mere act of reproduction, performance, distribution, or display."¹ In other words, if the act of reproduction, performance, distribution, or display will *in itself* infringe the state-created right, then the state right is preempted. However, if in addition to the act of reproduction, performance, distribution, or display, the state created

right requires an additional element that renders the state created claim *qualitatively different* from a copyright infringement claim, there is no preemption.² Nimmer's analysis of federal copyright preemption is referred to as the "extra element" test and has been generally adopted by the California courts of appeal and by most other state appellate courts.

What is less clear however, is just what constitutes the needed "extra element." A small minority of state cases hold that breach of contract claims regarding the reproduction, performance, distribution, or display of copyrightable material are never preempted by federal copyright law because the promise to perform inherent in every contract constitutes the needed "extra element" that makes the action qualitatively different from a copyright infringement action. However, the majority of state courts reject this view and hold that the promise inherent in a contract, standing alone, is insufficient to constitute the needed extra element because the promisor has merely promised to do nothing more than refrain from copying material subject to federal copyright protection. Under this theory, the contract claim is not qualitatively different from a copyright infringement action because there is simply no consideration for the promise. The promisor is merely agreeing to do what he is already obligated to do under federal copyright law.

Surprisingly, the California Supreme Court has never addressed the issue of federal copyright preemption. This silence has led to some confusion and occasionally contradictory results among California's trial courts. In light of the foregoing, California's Second Appellate District (Los Angeles County), has sought to clarify the issue in *Kabehie v.*

¹ 1 Nimmer on Copyright (Rel.57) § 1.01[B][1], p. 1-12

² Id. at p. 1-13.

Zoland, 102 Cal. App. 4th 513 (2002), where the court adopted the majority view as follows:

“The mere breach of the promise inherent in every contract does not constitute the requisite extra element unless the promise creates a right qualitatively different from copyright. A right that is qualitatively different from copyright includes a right to payment, a right to royalties, or any other independent covenant.” *Id.* at 528.

To illustrate the application of this rule, suppose a musician promising to license musical recordings to a recording studio for distribution on its own label only, in fact delivers such recordings and is paid. Later, however, the recording studio breaches the contract by licensing the recordings to other labels. Any state court breach of contract suit brought by the musician against the recording studio would be preempted because the rights conveyed by the contract pertain to the limited reproduction and distribution rights protected by federal copyright law. *Id.* at 529. However, changing the factual scenario slightly, suppose the musician promises to sell musical recordings to the studio, payment is exchanged, however the musician fails to deliver the master recordings? In this instance any resulting state court breach of the contract action would not be preempted because the action does not allege the unauthorized reproduction of the musical recordings.

Similarly, suppose the musician promised to sell to the recording studio the master recordings and all rights thereto, when in fact the musician did not own the recordings, did not intend to transfer the rights exclusively, and intended to reproduce and sell the recordings and interfere with the recording studio’s business. A subsequent state court breach of contract suit asserting allegations such as fraud in the inducement, misrepresentation of ownership, and falsely promising to deliver recordings would not be subject to federal preemption because each claim contains the additional element of fraud rendering such state law claims qualitatively different from the federal copyright infringement action. “Under the extra element test, it is clear that federal copyright law does not preempt state causes of action [claims]

alleging fraud. Fraud involves the extra element of misrepresentation.” *Id.* at 530.

Thus, at least in Los Angeles County, the law on federal preemption is now quite a bit clearer than formerly. It can safely be said that any state court contract claim seeking to enforce a copyright owner’s exclusive rights of reproduction, performance, distribution, or display will be preempted by federal copyright law. On the other hand, if the state court contract claim involves the extra element of fraud, the suit is not subject to federal preemption.

Who Decides Copyright Ownership And Forum Shopping Claims – State or Federal Courts?

Another hotly contested issue closely related to federal copyright preemption is: Who has jurisdiction to hear disputes solely related to the ownership of copyrights -- the federal courts or the state courts? This issue arises because the copyright act governs the nature and scope of renewal rights, as well as their assignability. This year the Ninth Circuit in *Scholastic Entertainment, Inc. v. Fox Entertainment Group, Inc.*, No. 02-55667 (9th Cir. July 18, 2003) addressed this issue providing much needed clarity and guidance to both the state and federal courts. The Ninth Circuit held that questions regarding the scope of rights granted under the Copyright Act, or whether certain of the rights granted under the Act are assignable (moral rights for example are not), are proper questions of federal law giving rise to federal question jurisdiction. *Slip Op.* at 9814. However, questions regarding whether the conditions for a valid assignment of rights have been met are contract issues to be decided by the state courts. *Id.*

So who has jurisdiction when the plaintiff alleges copyright infringement for the sole purpose of seeking a determination of ownership of the underlying copyrights? This was the fact pattern presented in *Scholastic*, with a twist. In that case the defendant stipulated that it would not reproduce or sell the copyrighted material in question until the issue of ownership had been resolved. Given this stipulation, the Ninth Circuit held that no infringement of the rights granted by the Copyright Act were at issue and

the federal district court's *sua sponte* dismissal of the case was proper. *Id.* at 9816.

Thus, the rule set down in *Scholastic* is simply that federal courts lack jurisdiction to hear disputes solely regarding the ownership of copyrights. Thus, plaintiffs can no longer engage in forum shopping by tacking on an unsubstantiated allegation of infringement in order to have their case heard in federal court. However, where a plaintiff alleges a valid claim of copyright infringement and a claim regarding ownership, a federal court may, of course, also hear the ownership claim via supplemental jurisdiction.

Further Information

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