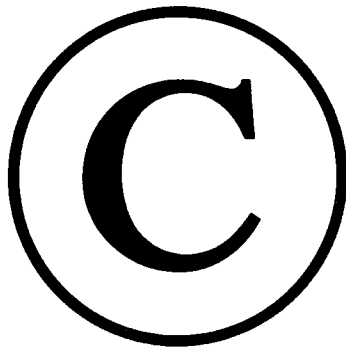

Journal

of the

Copyright Society

of the USA



COPYRIGHT PREEMPTION: NEW YORK
STATE'S ERRONEOUS INTERPRETATION

DAVID RABINOWITZ
HELENE GODIN

VOL. 39, No. 3

SPRING 1992

COPYRIGHT PREEMPTION: NEW YORK STATE'S ERRONEOUS INTERPRETATION

by DAVID RABINOWITZ* AND HELENE GODIN**

The 1976 Copyright Act¹ marked a great expansion in federal control of copyrights. Federal law took over the protection of unpublished and unregistered works, previously the domain of common law copyright under state law.

In extending federal protection to unpublished and unregistered works, Congress also cleared the copyright arena of potentially conflicting state laws by exercising its power under the Supremacy Clause to preempt state law. Preemption by statute marked a change from prior law; while the states had previously been subject to an ill-defined constitutional preemption, the 1976 Act clearly defined what state rights would be thenceforth unenforceable.

The intended clarification of federal copyright preemption by the enactment of § 301 of the Copyright Act, unfortunately, has resulted in confusion in New York State case law. The state courts of New York have interpreted statutory copyright preemption in the 1976 Act as merely another rule of judicial jurisdiction. Preemption, however, has nothing to do with jurisdiction. Federal courts have long had exclusive jurisdiction to enforce rights under the federal copyright law, and § 301 did not expand or reduce it.² This distinction has subtle, but potentially catastrophic, implications for the practitioner who takes the New York courts at their word.

FEDERAL COPYRIGHT PREEMPTION BEFORE THE 1976 COPYRIGHT ACT

Preemption is and always has been a rule of substantive, not procedural, law. Constitutional preemption (as well as § 301 of the 1976 Copyright Act) nullifies rights under state law, not state court power to exercise jurisdiction. For this reason, dismissal of a claim because of preemption has a more serious effect than New York State case law implies.

The federal copyright power stems from Article I of the United States Constitution. Article I, section 8, clause 8 states: "The Congress shall have power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their re-

*David Rabinowitz is a partner at the law firm of Moses & Singer.

**Helene Godin is an associate at the law firm of Moses & Singer.

¹ 17 U.S.C. §§ 101 *et seq.*

² See 28 U.S.C. § 1338(a) (1976) (giving federal courts exclusive jurisdiction for actions arising under the Copyright Act).

spective Writings and Discoveries." In response to this constitutional mandate, Congress enacted the first copyright statute in 1790. However, it was not until 1964, 130 years later, that the issue of constitutional limitation (*i.e.*, preemption) of state law under the Copyright-Patent Clause of the Constitution reached the Supreme Court.³

In *Sears, Roebuck & Co. v. Stiffel Co.*,⁴ and *Compco Corp. v. Day-Brite Lighting, Inc.*,⁵ plaintiffs brought actions in federal court under both the federal patent law and under Illinois' unfair competition law for copying product shapes. (Pole lamps were at issue in *Sears*, fluorescent lighting fixtures in *Compco*). Although finding plaintiffs' patents invalid, the United States District Court for the Northern District of Illinois held for plaintiffs on the state unfair competition claim. In *Sears*, the court enjoined the defendant "from unfairly competing with the plaintiff by selling or attempting to sell pole lamps identical to or confusingly similar to" plaintiff's lamp.⁶ In *Compco*, the defendant was enjoined "from unfairly competing with plaintiff by the sale of reflectors identical to, or confusingly similar to" those made by plaintiff.⁷ The Court of Appeals for the Seventh Circuit affirmed both decisions, but the Supreme Court reversed.

The Court found that the Illinois law conflicted with federal copyright and patent law. The Court reasoned that Congress, by withholding federal protection for the pole lamps and lighting fixtures under the patent and copyright acts, had evinced an intention to permit copying of such works. Because Congress' inferred policy would be defeated by the Illinois state law, it was invalid under the Supremacy Clause. A broad standard of federal preemption was articulated by Justice Black, who stated:

[W]hen an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. I, § 8, cl. 8 of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.⁸

Nine years later, the Supreme Court reduced the scope of constitutional preemption in the copyright area. In *Goldstein v. California*,⁹ the Court upheld a conviction under California's record piracy statute, which made it a

³ Although it almost did, much earlier. See *Wheaton v. Peters*, 33 U.S. 374, 406, 443 (1834) (Argument of Sergeant; Thompson, J., diss.)

⁴ 376 U.S. 225 (1964).

⁵ 376 U.S. 234 (1964).

⁶ *Sears*, 376 U.S. at 226.

⁷ *Compco*, 376 U.S. at 236.

⁸ 376 U.S. at 237.

⁹ 412 U.S. 546 (1973).

misdeemeanor to duplicate sound recordings.¹⁰ Relying on *Sears and Compco*, the defendants moved to dismiss the complaint on the ground that the Penal Code section was preempted, arguing that it prohibited the copying of published works left unprotected by a copyright.¹¹ The California courts upheld the statute and the Supreme Court affirmed.

The Court read *Sears and Compco* to hold that if an article is a member of a class of articles eligible for a copyright or patent, but the particular article fails to qualify for such protection, then state law may not step in and provide the same protection. However, if an article is not in a protectable class, then states may protect it, since federal law "has left the area unattended, and no reason exists why the State[s] should not be free to act."¹² Thus, said the Court, because sound recordings as a group were ineligible for protection under federal copyright law, they could be protected under state law.¹³

The final pre-1976 Supreme Court case dealing with copyright or patent preemption is *Kewanee Oil Co. v. Bicron Corp.*¹⁴ In that case, plaintiff had developed an unpatented process to create a new crystal for detecting ionizing radiation. Several of plaintiff's former employees had formed a competing corporation and were using information obtained while they were employed by plaintiff. Plaintiff brought an action under Ohio's trade secret law.

The United States District Court for the Northern District of Ohio granted a permanent injunction. The Sixth Circuit reversed, holding that although the process, procedures and techniques used by the plaintiff constituted trade secrets protectable under the Ohio trade secret laws, and although the former employees appropriated the trade secrets in violation of their employment agreements, the Ohio trade secret laws were preempted by the federal patent law. The Supreme Court reversed again, upholding the Ohio statute.¹⁵

As in *Goldstein*, the Court focused on whether the state trade secret law could exist harmoniously in the same field as the federal patent law. The Court held that the Ohio trade secret law was not preempted because the state law neither clashed with the objectives of federal patent law nor obstructed congressional purpose. The Court concluded that trade secret protection, although an additional incentive for invention, does not provide so

¹⁰ *Id.* at 548.

¹¹ *Id.* at 548-549. The cause of action arose prior to passage of the Sound Recording Amendment of 1971, under which sound recordings were protected by federal copyright law for the first time. See Pub. L. No. 92-440, 85 Stat. 391 (1971), as amended, Pub. L. No. 93-573, 88 Stat. 1873 (1974).

¹² 412 U.S. at 570.

¹³ *Id.* at 571.

¹⁴ 416 U.S. 470 (1974).

¹⁵ *Id.* at 473-74.

substantial an incentive as to cause inventors to avoid the patent system and thereby frustrate the patent policy of public disclosure of inventions.¹⁶

What appears clearly from these rulings is that the issue of constitutional copyright and patent preemption is a question of what rights can exist, not where those rights may be enforced. The Supreme Court in each case was answering the question whether the states could endow the inventor or author with certain rights, not whether the inventor or author was in the correct court. *Goldstein* was originally a California state court case, while *Sears*, *Compco* and *Kewanee* all began in the federal district court. Yet none of those cases turned on the forum where the action was brought.

PREEMPTION UNDER THE 1976 COPYRIGHT ACT

This brings us to § 301 of the 1976 Copyright Act, which preempts state law in the following terms:

On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.¹⁷

It will be observed that this statute deprives authors of certain "rights" under state law. In terms, it is not a jurisdictional statute, but a statute cancelling certain rights.

Congress evidently hoped that this section would dispel any uncertainty under the Supreme Court's existing preemption rulings, which were based on inferred, but unexpressed, congressional policy. The legislative history of § 301 provides in relevant part:

The intention of § 301 is to preempt and abolish any rights under the common law or statutes of a State that are equivalent to copyright and that extend to works coming within the scope of the Federal copyright law. The declaration of this principle . . . is intended to be stated in the clearest and most unequivocal language possible, so as to foreclose any conceivable misinterpretation of its unqualified intention that Congress shall act preemptively, and to avoid the development of any vague borderline areas between State and Fed-

¹⁶ *Id.* at 491-92.

¹⁷ 17 U.S.C. § 301(a) (1978).

eral protection.¹⁸

Unfortunately Congress' lofty goal to "foreclose any conceivable misinterpretation" of preemption has not been entirely successful, at least in the New York State courts. Instead, the New York State courts have created a procedural pitfall, which may trap unwary litigants and their attorneys.

NEW YORK STATE CONSTRUCTION OF § 301 OF THE COPYRIGHT ACT OF 1976

Editorial Photocolor Archives, Inc. v. Granger Collection,¹⁹ is the leading New York State case on copyright preemption. Plaintiffs there maintained an archive of film transparencies and photographs. They claimed that defendant, a competitor, improperly obtained the transparencies, removed a frame with plaintiffs' name, replaced that frame with another bearing defendant's name, and marketed the transparencies.²⁰ Plaintiffs' first cause of action, for common-law unfair competition, alleged that defendant wrongfully held out to the public that it had the reproduction rights to the transparencies, submitted such transparencies to publishers for reproduction, received reproduction fees, and obtained credit for the pictures in those publications, all of which constituted "a wilful, calculated, and unlawful appropriation of plaintiffs' property rights . . . , which has damaged Plaintiffs by depriving the Plaintiffs of reproduction fees and publishing credits in connection with the misappropriated . . . transparencies."²¹ The second cause of action, for wrongful interference with a contract, repeated the above averments and alleged that defendant's acts constituted "an appropriation by Defendants . . . of Plaintiff[s]' . . . right to sell, lease or license reproduction rights to all [plaintiffs'] . . . photographs and transparencies in North America."²² The third cause of action alleged that defendant's actions in "pirating the . . . transparencies and in wrongfully selling the reproduction rights [violated] § 368-d of the New York General Business Law."²³

Special Term issued a preliminary injunction, enjoining defendant "from in any manner appropriating, reproducing, leasing, licensing, selling, displaying or otherwise using the . . . transparencies" and "from holding out the Defendant and its film library as the owner of the reproduction rights to the transparencies"²⁴ Defendant moved to vacate the preliminary injunc-

¹⁸ H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 130 (1976), *reprinted in* 1976 U.S. Code Cong. & Admin. News at 5746.

¹⁹ 61 N.Y.2d 417, 474 N.Y.S.2d 764, 463 N.E.2d 365 (1984).

²⁰ 61 N.Y.2d at 520, 474 N.Y.S.2d at 965.

²¹ 61 N.Y.2d at 521-22, 474 N.Y.S.2d at 965-66.

²² 61 N.Y.2d at 521, 474 N.Y.S.2d at 966.

²³ *Id.*

²⁴ *Id.*

tion. Special Term denied the motion and the Appellate Division affirmed.²⁵

In reversing the lower court decisions and vacating the preliminary injunction, the Court of Appeals observed that the transparencies at issue were within the subject matter of copyright, and that the rights that defendant allegedly violated (e.g. the exclusive rights to display, reproduce, distribute and sell) were within the general scope of copyright protection.²⁶ Accordingly, the Court of Appeals held that the complaint, "while couched as a common-law claim for unfair competition, interference with contractual relations and violation of section 368-d of the General Business Law, is essentially an action to enforce rights equivalent to rights under the Federal copyright laws over which, as to causes of action accruing after January 1, 1978, the State courts no longer have jurisdiction."²⁷

We agree with the Court's finding that the claims were preempted by the Copyright Act. However, the Court erred when it gave as its ground for vacating the preliminary injunction, that the trial court lacked "subject matter jurisdiction" over the claims asserted.²⁸ Copyright preemption, as shown above, invalidates rights, and has nothing to do with jurisdiction.

CONSEQUENCES OF MISCHARACTERIZING COPYRIGHT PREEMPTION AS A JURISDICTIONAL ISSUE

What, then, is the effect of the dismissal of a cause of action by a New York state court on the ground of federal copyright preemption?

Assume that, upon learning that the state court lacked "subject matter jurisdiction," as the Court of Appeals said, the plaintiffs in *Editorial Photocolor* walked across the street to federal court, and filed the same complaint that was filed in state court. We submit that the plaintiffs would have been surprised to learn that the federal court would not hear the action, also for lack of subject matter jurisdiction. As the state courts concluded, the complaint asserted a (preempted) claim arising under *state* law, and not an action "arising under any act of Congress relating to . . . copyrights."²⁹ The state court was the proper forum; it was the claims themselves that were defective.

Taking the hypothetical one step further, assume the plaintiffs and the defendant in *Editorial Photocolor* were from different states, and the amount in controversy was in excess of \$100,000, so that the case could be heard in federal court. Nevertheless, the *Editorial Photocolor* plaintiffs would not fare

²⁵ 61 N.Y.2d at 520, 474 N.Y.S.2d at 965.

²⁶ 61 N.Y.2d at 521-22, 474 N.Y.S.2d at 966.

²⁷ 61 N.Y.2d at 519, 474 N.Y.S.2d at 965 (citations omitted, emphasis added).

²⁸ 61 N.Y.2d at 523, 474 N.Y.S.2d at 967.

²⁹ See 28 U.S.C. § 1338(a) (1978) (requiring that the federal courts have exclusive jurisdiction of "any civil action arising under any acts of Congress relating to patents, plant variety protection and copyrights").

any better. The defendant, in federal court, would prevail on a motion for summary judgment because the New York Court of Appeals had already determined that the claim was preempted by federal law, and that determination would be *res judicata*. The state court's ruling would have been one of substantive law, namely, that the right asserted was legally defective because the Copyright Act prohibited its enforcement.³⁰ The judgment in the state court was final and it had jurisdiction to render that judgment. That determination therefore was binding on the federal court.

Does it matter that the state court thought it was dismissing the action on jurisdictional grounds rather than on the merits? No, if for no other reason than that the doctrine of issue preclusion would apply. The doctrine of issue preclusion, a part of the doctrine of *res judicata*, states that any issue that is actually litigated and determined and whose resolution is necessary to the court's judgment may not be relitigated.³¹ On its way to surrendering "jurisdiction" in *Editorial Photocolor*, the New York Court of Appeals determined—and necessarily so—that federal preemption applied. Because the *Editorial Photocolor* plaintiff actually litigated and lost on that issue, no court, federal or otherwise, could reconsider the issue.

Now assume, having been unsuccessful on its unfair competition, interference with contract and § 368-d claims in both state and federal court, the *Editorial Photocolor* plaintiff decides to do what perhaps it should have done in the first place: it brings yet another action in federal court, now for copyright infringement. The plaintiff would then be out of luck because of *res judicata*.

In one of the hypothetical federal actions discussed above, the federal court had jurisdiction on the basis of diversity and rendered a judgment on the merits. It is well-settled that recasting a claim under a different theory or statute does not avoid *res judicata*.³² As the Restatement says, the earlier action extinguished "all rights of the plaintiff to remedies against the defendant with respect to all or any part of the transaction . . . out of which the action arose."³³ A copyright claim based on the same facts clearly falls within this category.

Looking at the same issue from another angle, assume that, as was the

³⁰ See *Bell v. Hood*, 327 U.S. 678, 682 (1946) ("[f]ailure to state a proper cause of action calls for a judgment on the merits and not for a dismissal for want of jurisdiction").

³¹ *Montana v. U.S.*, 440 U.S. 147, 153 (1979) (quoting *Southern Pacific Railroad Co. v. U.S.*, 168 U.S. 1, 48-49 (1897)).

³² See, e.g., *Williamson v. Columbia Gas & Electric Corp.*, 186 F.2d 464, 468 (3d Cir. 1950), *cert. denied*, 341 U.S. 921 (1941) (fact that different statute was relied on in second action by same parties did not render claims different "causes of action" for purposes of *res judicata*).

³³ Restatement (Second) of Judgments § 24(1) at 196 (1982).

case in *Meyers v. Waverly Fabrics*,³⁴ a designer brings an action against a fabric manufacturer, asserting that plaintiff created a design and granted to defendant only the right to use the design on fabric and wallpaper. Plaintiff claims that defendant exceeded its rights under the agreement by purporting to license others to use the design. The Appellate Division dismisses the action for "lack of subject matter jurisdiction," holding that the claim is preempted.³⁵

Now, deviating from the facts of *Meyers*, assume that the plaintiff accepts the Appellate Division's "jurisdictional" ruling and files the same complaint in federal court, rather than appealing to the Court of Appeals. First, absent diversity of citizenship, the federal court would not have jurisdiction because the claim does not arise under the Copyright Act.³⁶ Second, even with diversity jurisdiction, *res judicata* would still apply. Because our hypothetical *Meyers* plaintiff failed to exercise its right to appeal the Appellate Division decision, that decision became a final judgment.³⁷ That final determination of preemption would preclude relitigation of that issue in federal court.³⁸

What should the practitioner do to avoid this procedural pitfall? If you are in state court and your claim is dismissed because of copyright preemption—whether or not the court characterizes the dismissal as one for lack of subject matter jurisdiction—you should not refile the same claim in federal court. If the claim is in fact preempted, neither the federal nor the state court can hear it. Even if the claim is not preempted, and the state court judgment is therefore erroneous, an attempt to relitigate the issue in federal court could be foreclosed by *res judicata*.

Instead, if you wish to pursue your state law claim, you must take an appeal in state court and, if appropriate, file an action for copyright infringement in the federal court. As state courts cannot hear copyright claims, no

³⁴ 65 N.Y.2d 75, 489 N.Y.S.2d 891, 479 N.E.2d 236 (1985).

³⁵ 65 N.Y.2d at 77-78, 498 N.Y.S.2d at 892.

³⁶ In *Smith v. Weinstein*, 578 F. Supp. 1297, 1307-08 (S.D.N.Y. 1984), *aff'd w/o op.*, 738 F.2d 419 (2d Cir. 1984), for example, the Southern District of New York dismissed breach of contract claims for lack of jurisdiction "without prejudice to their assertion in an appropriate state court."

³⁷ See *Myers v. Bull*, 599 F.2d 863, 865 (8th Cir. 1979), *cert. denied*, 444 U.S. 901 (failure to appeal an appealable decision results in final judgment for *res judicata* purposes).

³⁸ It should be noted that the actual *Meyers v. Waverly* plaintiff did not fall into the trap we have been discussing. Rather than going to federal court, plaintiff appealed to the New York Court of Appeals. The Court of Appeals reversed the lower court decision, noting that "nothing in [§ 301] derogates from the rights of the parties to contract with each other and to sue for breaches of contract." *Meyers*, *supra* n.37, 65 N.Y.2d at 78, 489 N.Y.S.2d at 891 (quoting H.R. Rep., *supra* n.19, at 121, *reprinted in* 1976 U.S. Code Cong. & Admin. News at 5748). *Id.*

state court dismissal can preclude a subsequent copyright claim. In this connection the copyright statute of limitations must be watched closely.

CONCLUSION

Copyright preemption limits the rights that may be asserted in works that are within the subject matter eligible for copyright protection. Moreover, it is a substantive rule of law voiding the preempted rights, contrary to the statements of New York state courts. A ruling by any court, even a state court, that a cause of action is preempted is a dismissal on the merits and not a jurisdictional ruling, however the court itself may construe it. Unless there is an alternative copyright claim available to the plaintiff that plaintiff is willing to assert, a state preemption ruling must be appealed to avoid *res judicata* effect, and recourse to a federal court will be unavailing as long as the state ruling of preemption stands.
