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COPYRIGHT PREEMPTION OF CONTRACTS

CHRISTINA BOHANNAN*

I. INTRODUCTION

For more than ten years, a debate has been raging in copyright law over the enforceability of contractual license agreements that alter the “delicate balance” of rights that the Copyright Act strikes between owners and users of works of authorship.¹ The debate initially focused primarily on so-called “shrinkwrap licenses” that accompanied computer software. Owners of copyrighted software were using the shrinkwrap licenses to prohibit licensees from using the software in ways that were permitted—even encouraged—by the Copyright Act, including reverse engineering the software to learn how it works and copying the software for archival and other purposes.² Since then, technology has improved, facilitating the formation of contracts to cover many uses previously governed by copyright. Today, people contract away statutory rights—including their rights to use uncopyrighted public domain material as well as their fair use rights—with a single click of the mouse. This contract regime threatens to supplant a sizeable portion of the copyright regime.

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1. See, e.g., *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (addressing whether the terms of a software license are preempted by the Copyright Act); *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l*, 991 F.2d 426 (8th Cir. 1993) (same); Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239 (1995) [hereinafter Lemley, *Intellectual Property*] (discussing the growing importance of contract law, as opposed to the Copyright Act, in the allocation of rights in computer software); David Nimmer et al., *The Metamorphosis of Contract into Expand*, 87 CAL. L. REV. 17 (1999) (addressing the ways contract law is interacting and interfering with rights under the Copyright Act and suggesting ways to regulate contracts dealing with software licensing); Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479 (1995) (same); Joel Rothstein Wolfson, Comment, *Contract and Copyright Are Not at War: A Reply to "The Metamorphosis of Contract into Expand,"* 87 CAL. L. REV. 79 (1999) (same).

This debate continues today. E.g., Frank H. Easterbrook, *Contract and Copyright*, 42 HOUS. L. REV. 953 (2005) [hereinafter Easterbrook, *Contract and Copyright*]; Kathleen K. Olson, *Preserving the Copyright Balance: Statutory and Constitutional Preemption of Contract-Based Claims*, 11 COMM. L. & POL'Y 83, 84 (2006).

2. See Lemley, *Intellectual Property*, *supra* note 1, at 1241–48 (discussing the uses and contents of shrinkwrap licenses).

The balance of rights provided in the Copyright Act is necessary to copyright's purpose of fostering the creation and dissemination of expression. To achieve its purpose, copyright law must foster all kinds of expression, old as well as new, by owners as well as users. Thus, license agreements that tip the balance of rights to favor licensors are often contrary to copyright policy.

Many copyright scholars have argued that these contractual licenses should not be enforced. Initially, they argued that these licenses, particularly unbargained-for shrinkwrap licenses, should be deemed invalid contracts under ordinary contract law.³ Around that time, the Uniform Commercial Code (U.C.C.) was being updated to reflect the business realities of contracting in the digital age.⁴ One major revision was the addition of Article 2B, which provided that shrinkwrap licenses and other form agreements were presumptively enforceable despite the fact that they lacked traditional forms of assent to their terms.⁵ Courts now routinely reject the position that shrinkwrap and other licenses should be held invalid as a matter of contract law.⁶

Copyright scholars next turned to preemption doctrine, arguing that the Copyright Act should preempt contractual licenses that alter the Act's "delicate balance" of rights between owners and users.⁷ Here, too, courts have been unreceptive. Although courts frequently have held that the Copyright Act preempts non-contract state law claims ranging from unfair competition and misappropriation to rights of publicity, they are clearly uncomfortable preempting contract claims.⁸ Courts recognize that contracts are different from both federal copyrights and other state law claims in ways that matter in preemption analysis. Preemption analysis focuses on conflicts between federal law and state-imposed obligations, whereas contracts reflect private ordering. Moreover, the Copyright Act expressly allows contracts for certain purposes.⁹ Indeed, the efficacy of the Act as a

3. See, e.g., *id.* at 1240; Nimmer et al., *supra* note 1, at 19; Wolfson, *supra* note 1, at 79.

4. See *infra* note 22 and accompanying text.

5. See *infra* note 23 and accompanying text.

6. See, e.g., *ProCD*, 86 F.3d at 1451–53 (stating that refusing to enforce these contracts would force modern business transactions to return to the "horse-and-buggy age").

7. See, e.g., O'Rourke, *supra* note 1, at 541–51.

8. See *infra* Part III.A.1.a.

9. See, e.g., 17 U.S.C. § 201(d)(1) (2000) (allowing transfer of copyright ownership by written agreement or by operation of law); *id.* § 101 (defining "work made for hire" as a work falling within enumerated categories "if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire").

whole depends on the ability of copyright owners to contract with others to make the most of their copyrights.

As a result, courts virtually never preempt these contracts, no matter how much their terms conflict with the Act's provisions. Courts reason that because contracts contain an element of agreement and bind only those in privity, contract claims are qualitatively different from copyright claims.¹⁰ Meanwhile, scholars are equally categorical in their opposing view, reasoning that contract claims can impede the objectives of federal law just as other state law claims can. Thus, they conclude that contract claims should almost always be preempted where the terms of the contract differ from the terms of the Copyright Act.¹¹

Although courts and scholars disagree over preemption, they agree that copyright law needs a remedy for contractual overreaching. For instance, some courts have suggested that the evolving doctrine of copyright misuse might provide a defense where the copyright owner uses a contract to expand the copyright "monopoly" beyond the scope provided by the Copyright Act.¹² But misuse is no panacea for harms to copyright or competition policy arising from license agreements. Oftentimes, a copyright license agreement is deemed to constitute misuse only where it comes close to being an antitrust violation, such as where the agreement imposes an unlawful tying arrangement.¹³ Although some courts have indicated their willingness to free misuse from antitrust principles,¹⁴ they must be careful to restrain it. Misuse is a powerful remedy for contractual overreaching. It invalidates not only the particular contract, but the entire copyright as well for as long as the misuse continues.¹⁵ Indeed, even infringers who are not parties to the contract can raise misuse as a defense in a copyright infringement suit.¹⁶

Thus, while misuse occupies an important role in copyright, it is frequently not an appropriate remedy for contractual overreaching. Preemption is a more appropriate remedy in many cases because it

10. See *infra* Part III.A.1.a.

11. See *infra* Part III.A.1.b.

12. See, e.g., *Assessm't Techs. of Wis., LLC v. WIREdata, Inc.*, 350 F.3d 640, 646–47 (7th Cir. 2003); Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 153–55 (1999) [hereinafter Lemley, *Beyond Preemption*].

13. See HERBERT HOVENKAMP ET AL., IP AND ANTITRUST § 3.4b1 (Supp. 2006).

14. *Id.* § 3.4b1 & nn.15–15.1.

15. JAMES B. KOBAK, INTELLECTUAL PROPERTY MISUSE: LICENSING AND LITIGATION 216 (2000).

16. See, e.g., Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 867 (2000).

prevents enforcement of license agreements that are contrary to copyright policy without invalidating the copyright as a whole.¹⁷ Unfortunately, preemption doctrine is under-utilized because no coherent model of preemption accommodates both the interest in enforcing contracts as well as the interest in enforcing copyright policy.

This Article argues that both courts and scholars are wrong in their categorical approaches to preemption of contracts under the Copyright Act, and proposes an intermediate approach that recognizes the importance of both contract rights and federal policy in preemption analysis. First, it argues that both courts and scholars have misapplied preemption law to breach of contract claims. Although the two sides tend to favor opposite results, they take equally categorical approaches.¹⁸ Categorical approaches to the issue of contract preemption are antithetical to preemption law. Under either express or implied preemption, courts must consider whether a particular state law claim interferes with the purpose of the federal statute. This preemption analysis turns not on the label of state law claim under consideration, but on close examination of the legal and factual details of a particular case.

Second, the reason this issue has been analyzed incorrectly is that preemption law seems ill-suited to contract claims. Ordinarily, preemption cases are concerned with whether a state regulatory scheme is likely to supplant a federal scheme. In cases dealing with preemption of contracts, however, that is not ordinarily the issue. State law is necessary to enforce contracts, but the obligations are voluntarily assumed. Thus, the issue is really whether individuals should be able to contract away rights granted by the federal Copyright Act. Accordingly, I argue that in analyzing the Copyright Act's preemption of contracts, courts should draw more from the law related to contractual waiver of statutory rights. This body of law governs the extent to which individual waivers of statutory rights are enforceable and applies to all kinds of state and federal statutes.¹⁹

Third, the Article proposes a new model for addressing copyright preemption of contracts based on insights from waiver doctrine. Waiver doctrine holds a contractual waiver enforceable if it (1) is clear and unmistakable, and (2) purports to waive statutory rights under

17. Cf. Thomas F. Cotter, *Misuse*, 44 Hous. L. Rev. 901, 960–61 (2007) (arguing that in cases involving contractual overreaching by an intellectual property holder rising to “transactional misuse,” federal intellectual property law should preempt the offensive contract but should not invalidate the underlying right).

18. See *infra* Part III.A.1.

19. See *infra* note 159 and accompanying text.

the Copyright Act that protect individual rather than public interests.²⁰ If courts integrate these requirements from waiver doctrine into contract preemption analysis, the analysis will be more consistent with preemption law generally and will find the proper balance between freedom of contract and federal copyright policy.

The first waiver requirement encourages informed contracting and protects federal copyright policy by maintaining the Copyright Act's balance of rights unless parties clearly intend to strike a different balance for themselves. The second requirement protects freedom of contract and federal copyright policy by enforcing contracts that do not contravene statutory purpose and preempting those that do. Where a statutory right is intended to benefit an individual, courts should treat it as a default right that parties may contract around. Thus, for example, contractual promises not to resell or make archival copies of a work ordinarily should not be preempted. On the other hand, where the right is intended to benefit the public, individuals ordinarily should not be able to waive it. The right is not theirs to give away, and, if enforced, the waiver could interfere with the purpose of the federal statute. For instance, a contractual promise not to use public domain material or to make fair use of copyrighted material affects copyright policy intended for protection of the public. Accordingly, unless the court determines that allowing individual waivers will somehow effectuate the Copyright Act's statutory purpose in the aggregate, contracts containing such waivers should be preempted.

II. BACKGROUND

A. *Contract Validity*

The debate over the enforceability of contract licenses began around the time that the National Conference of Commissioners on Uniform State Laws (NCCUSL) was in the process of revising the U.C.C.²¹ Article 2B was added to the U.C.C. to provide answers to new questions arising in digital commerce. As such, it governs software licenses, electronic agreements, and other information transactions.²²

Recognizing the business realities of contracting in the information age, Article 2B exempts such contracts from the U.C.C.'s general

20. See *infra* notes 161–162 and accompanying text.

21. See Lemley, *Intellectual Property*, *supra* note 1, at 1240; Nimmer et al., *supra* note 1, at 21–22; Wolfson, *supra* note 1, at 79–80.

22. U.C.C. § 2B-103 cmt. 2 (Draft 1999), available at <http://www.law.upenn.edu/bll/zrchives/ulc/ucc2b/2b299.htm>.

requirements for contract formation and enforceability and provides specific rules for these new contracts. In particular, it provides that shrinkwrap licenses and other form agreements are enforceable even where they lack traditional forms of assent to their terms. Under Article 2B, a party manifests assent to the terms of a standard license by engaging in conduct that the license says constitutes acceptance.²³ Thus, licensees might accept the terms of a license by opening the box and using the software, or perhaps even by failing to return the opened software to the vendor.

Because such agreements often prohibit licensees from using the underlying software or other work in ways that are privileged by the Copyright Act, some commentators objected to Article 2B's rules that made these agreements presumptively enforceable contracts. They argued that the agreements governed by Article 2B were inconsistent with the "delicate balance" that the Copyright Act creates between owners and users. Thus, they urged that the proposed Article 2B should be amended to provide that agreements that alter the Copyright Act's balance of rights are unenforceable.²⁴

The NCCUSL did not agree, and with good reason. In a nutshell, the proposed amendments conflated issues of contract formation with issues of federal preemption. Article 2B merely provided for the enforceability of agreements *as a matter of contract law*. Indeed, it has always declared unenforceable any provisions that are preempted by federal law.²⁵ Although some commentators argued that this purported neutrality on the preemption issue did not do enough to protect federal copyright policy,²⁶ it seems unrealistic to believe that a commission that undertook to rewrite the U.C.C. would also take on federal preemption. In any event, the NCCUSL completed its work on Article 2B without the suggested amendments. The resulting

23. *Id.* § 2B-203.

24. For instance, Professor Mark Lemley argued that Article 2B "should be revised so that it does not enforce unbargained shrinkwrap license provisions that reduce or eliminate the rights granted to licensees by the federal intellectual property laws." Lemley, *Intellectual Property*, *supra* note 1, at 1264. He argued that this categorical approach actually "avoids the question of preemption" altogether because it "ensur[es] that shrinkwrap licenses do not contradict federal intellectual property law." *Id.* David Nimmer, author of a leading copyright treatise, similarly argued that "[a]ttempts to alter the 'delicate balance' through contract should fail," and that "if Article 2B is to be enacted, it must proscribe contracting practices that seek to extend copyright protection beyond its current scope." Nimmer et al., *supra* note 1, at 19.

25. U.C.C. § 2B-105 (Draft 1999), available at <http://www.law.upenn.edu/bll/zrchives/ulc/ucc2b/2b299.htm>.

26. See Nimmer et al., *supra* note 1, at 69–71 (arguing that Article 2B's purported neutrality presumptively validates provisions which are impermissibly in favor of proprietors).

model statute was renamed the Uniform Computer Information Transactions Act (UCITA).²⁷ It has since been enacted into law in at least two jurisdictions.²⁸

Some issues remain with regard to the validity of shrinkwrap licenses and similar agreements. Courts continue to address arguments that these agreements should be treated as unconscionable contracts of adhesion, or that, at the least, they should not be given as much deference as negotiated contracts. For the most part, however, courts uphold these contracts under the UCITA or other state contract law. As a result, courts have turned their attention to the issue of preemption under the federal Copyright Act.

B. Copyright Act Preemption of State Law Claims

There are two primary ways that a federal statute might preempt a state law claim. First, express preemption would hold a state law claim unenforceable if it meets the requirements of an express preemption clause of a federal statute. Second, implied preemption would hold a state law claim unenforceable under the Supremacy Clause if state enforcement of the claim interferes with the objectives of the federal statute.²⁹

Prior to passage of the 1976 Copyright Act, the Supreme Court held in *Goldstein v. California* that state law claims could co-exist with federal copyright law so long as they did not interfere with copyright's

27. Uniform Computer Information Transactions Act (2002), available at <http://www.law.upenn.edu/bll/archives/ulc/ucita/2002final.htm>.

28. UCITA was adopted in Virginia and Maryland in 2000. See VA. CODE ANN. §§ 59.1-501.1 to -509.2 (Supp. 2000); MD. CODE ANN., COM. LAW §§ 22-101 to -816 (2000).

29. There are three types of implied preemption. First, "field preemption" occurs where the federal statutory scheme is "so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it." See *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218, 230 (1947). Second, "conflict preemption" occurs where conflicting requirements of federal and state law make it impossible to comply with both. See *Fla. Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, 142-43 (1963). Third, "interference preemption" occurs where state law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." See *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

In the context of the Copyright Act, field preemption is not applicable to contract claims. The Act specifically requires or encourages authors to enter into contracts for certain purposes. See *supra* note 9. Moreover, contracts are necessary to allow copyright owners to make the most of their rights. It also is unlikely that conflict preemption applies under the Copyright Act, because conflict preemption applies only where a state law requires something that the federal law prohibits, or vice versa, and such instances are rare. This Article focuses on the two types of preemption most relevant to the Copyright Act: express preemption and implied preemption based on interference with federal statutory objectives.

statutory purpose.³⁰ Thus, the Court explained that under the Supremacy Clause, “a conflict would develop if a State attempted to protect that which Congress intended to be free from restraint or to free that which Congress had protected.”³¹ On the other hand, “where Congress determines that neither federal protection nor freedom from restraint is required by the national interest, . . . state protection would not then conflict with federal action”³²

Within a few years after *Goldstein*, Congress added an express preemption clause in the 1976 Copyright Act. Section 301(a) describes when the Act preempts rights granted by state statute or common law. It states:

[A]ll legal and 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 . . . 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.³³

While courts now frequently address express preemption under Section 301 of the Copyright Act, they typically do not address implied preemption as the *Goldstein* Court did prior to the 1976 Act. Presumably, courts believe that because Congress included a specific preemption clause in the Act, that clause delineates fully the preemptive effect of the statute.

This approach to preemption is probably incorrect. Preemption of state law that interferes with federal law objectives is required by constitutional mandate: “under the Supremacy Clause, from which our pre-emption doctrine is derived, ‘any state law, however clearly within a State’s acknowledged power, which interferes with or is contrary to federal law, must yield.’”³⁴ Thus, if a state law interferes with a federal statute’s purpose, it should be preempted even if it does not fall within the parameters of an express preemption clause.

30. 412 U.S. 546 (1973) (holding that the federal Copyright Act did not preempt California statute criminalizing piracy of sound recordings where the Copyright Act did not at the time accord copyright protection for record piracy).

31. *Id.* at 559.

32. *Id.*

33. 17 U.S.C. § 301(a) (2000).

34. *Gade v. Nat’l Solid Wastes Mgmt. Assoc.*, 505 U.S. 88, 108 (1992) (quoting *Felder v. Casey*, 487 U.S. 131, 138 (1988)).

In any event, it probably does not matter whether courts apply express or implied preemption, because these categories are not as distinct as they seem.³⁵ The Supreme Court has made it abundantly clear that in both express and implied preemption, every preemption case turns on congressional purpose.³⁶ In implied preemption cases, the inquiry depends directly on whether state law impedes the federal statutory purpose, which requires courts to examine the language, structure, and history of the statute. In express preemption cases, courts must rely on congressional purpose or intent in order to interpret the language of preemption clauses, and such language is rarely clear about the scope of preemption.

Accordingly, the approach proposed in this Article does not rely exclusively on express preemption or implied preemption but rather assumes that it makes little difference whether courts apply express preemption, implied preemption, or both under the Copyright Act. So long as courts decide preemption cases based on the effect state law claims have on statutory purpose, they should be able to reach the right result.

It is clear that in interpreting the express preemption clause of the Copyright Act, courts consider the purpose of the Act and the extent to which state law claims will impede that purpose.³⁷ In determining whether a particular state law right is preempted under Section 301, courts have applied a two-part test. A state law right is preempted if: (1) the subject matter of the state law claim is within the subject matter of federal copyright (subject matter requirement); and (2) the right asserted under state law is equivalent to the exclusive rights granted to copyright holders by federal copyright (equivalence requirement).³⁸

35. See ERWIN CHEMERINSKY, CONSTITUTIONAL LAW § 5.2.1, at 377 (2d ed. 2002) (noting that implied and express preemption ultimately require very similar analysis, despite being considered two different categories); see also, e.g., Catherine L. Fisk, *The Last Article About the Language of ERISA Preemption? A Case Study of the Failure of Textualism*, 33 HARV. J. ON LEG. 35, 40 (1996) (arguing that there is little difference between express and implied preemption); O'Rourke, *supra* note 1, at 535 (conducting implied constitutional preemption analysis of copyright license terms and concluding that "the inquiry would proceed in the same manner as noted [in express preemption analysis] under § 301 and should result in the same finding").

36. See *Medtronic, Inc. v. Lohr*, 518 U.S. 470, 485 (1996) (stating that "[t]he purpose of Congress is the ultimate touchstone" in every pre-emption case") (quoting *Retail Clerks v. Schermerhorn*, 375 U.S. 96, 103 (1963)); see also *Lorillard Tobacco Co. v. Reilly*, 533 U.S. 525, 541–42 (2001) (same); *Gade*, 505 U.S. at 96 (same).

37. See *supra* notes 34–36 and accompanying text.

38. See, e.g., *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 453 (6th Cir. 2001); *Nat'l Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 848 (2d Cir. 1997); *Ehat v. Tanner*, 780

Courts have considered a wide variety of state law claims under this test. Such claims involve rights of privacy, rights of publicity, unfair competition, trade secrets, conversion of personal property, and misappropriation, among other things.³⁹ Although the type of claim being challenged is important, courts rarely rule categorically on preemption based on the label of the state law claim. Each of these claims requires proof of unique elements that are not, at least ostensibly, identical to the elements of a copyright infringement claim under the federal Copyright Act. Moreover, the facts giving rise to these claims can vary significantly.

Thus, in conducting preemption analysis under Section 301, courts are attentive to both the legal and factual details of the state law claims. The driving consideration is the extent to which the claim interferes with or supplants the purpose of the Copyright Act.

With regard to the subject matter requirement for preemption, most of the courts that have addressed the question have held that the scope of the Copyright Act's subject matter for preemption purposes may extend to subject matter that is not copyrightable under the Act.⁴⁰ Thus, courts have rejected formalistic arguments that the scope of subject matter preempted by the Copyright Act should be coextensive with the scope of subject matter that is copyrightable under the Act. Rather, courts have reasoned that state law protection of uncopyrightable subject matter can interfere with the Act's purpose in designating the boundary between what should be protected and what should remain in the public domain.

For instance, Section 102(b) provides that copyright protection does not "extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in [a] work."⁴¹ With this section, the 1976 Act codified the well-established idea/expression dichotomy in which expression embodying ideas is copyrightable while the underlying ideas are not. The purpose of this limitation on copyrightability is to ensure that building-block ideas re-

F.2d 876, 878 (10th Cir. 1985); *Harper & Row Publ'rs, Inc. v. Nation Enters.*, 723 F.2d 195, 199-200 (2d Cir. 1983), *rev'd on other grounds*, 471 U.S. 539 (1985).

39. See generally I MELVILLE B. NIMMER & DAVID NIMMER, *NIMMER ON COPYRIGHT* § 1.01 (2007).

40. See *Wrench*, 256 F.3d at 455 (collecting cases and saying "[w]e join our sister circuits in holding that the scope of the Copyright Act's subject matter is broader than the scope of the Act's protections"); see also *United States ex rel. Berge v. Bd. of Trs. of the Univ. of Alabama*, 104 F.3d 1453, 1463 (4th Cir. 1997) ("[T]he shadow actually cast by the [Copyright] Act's preemption is notably broader than the wing of its protection.").

41. 17 U.S.C. § 102(b) (2000).

main in the public domain for all to use.⁴² Thus, courts have held that the Act preempts state law claims prohibiting the use of uncopyrightable ideas that underlie copyrightable expression. “[O]therwise ‘states would be free to expand the perimeters of copyright protection to their own liking, on the theory that preemption would be no bar to state protection of material not meeting federal statutory standards.’”⁴³ Although this conclusion regarding the Copyright Act’s preemptive scope is based on an interpretation of the Act’s express preemption clause, it mirrors *Goldstein’s* conclusion that implied preemption under the Supremacy Clause occurs where state law “attempt[s] to protect that which Congress intended to be free from restraint.”⁴⁴

Even regarding subject matter traditionally protected by the states, courts pick and choose which subject matter is preempted based on the extent to which the claim will affect the efficacy of federal copyright law. Right of publicity claims for misappropriation of a celebrity’s voice offer a good example.

Vocal performances involve both copyrightable subject matter such as the song itself, and uncopyrightable subject matter, such as the performer’s voice. Many courts have held that right of publicity claims are not preempted where the plaintiff argues that the defendant has imitated a celebrity’s voice, because a voice is not copyrightable subject matter.⁴⁵ Yet, courts have reached a different result where a plaintiff argues that the defendant misappropriated her voice by reproducing a recording of the plaintiff’s performance of a song. Because songs are copyrightable subject matter, courts have preempted such claims where the defendant reproduced the song without the plaintiff performer’s consent but with the consent of the owner of the copyright in the song.⁴⁶

42. See *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003) (stating that the “idea/expression dichotomy strike[s] a definitional balance between the First Amendment and the Copyright Act by permitting free communication of facts while still protecting an author’s expression” (quoting *Harper & Row*, 471 U.S. at 556 (internal quotation marks omitted))).

43. *Wrench*, 256 F.3d at 455 (quoting *Harper & Row*, 471 U.S. at 556).

44. See *Goldstein v. California*, 412 U.S. 546, 559 (1973).

45. *E.g.*, *Midler v. Ford Motor Co.*, 849 F.2d 460, 462 (9th Cir. 1988) (finding that where a professional “sound alike” imitated Bette Midler’s voice, singing one of her hit songs without her permission, the Copyright Act did not preempt a voice misappropriation claim under California law, as it failed the subject matter requirement of the preemption test).

46. *E.g.*, *Laws v. Sony Music Entm’t, Inc.*, 448 F.3d 1134, 1135–36 (9th Cir. 2006) (holding that the Copyright Act preempted the plaintiff’s claims of misappropriation of her name and voice where Sony, with the permission of the plaintiff’s agent, used a sample of the plaintiff’s prior work without compensating or properly crediting the plaintiff).

The Ninth Circuit recently explained the distinction between different right of publicity claims: “[a]lthough California law recognizes an assertable interest in the publicity associated with one’s voice, we think it is clear that federal copyright law preempts a claim alleging misappropriation of one’s voice when the entirety of the allegedly misappropriated vocal performance is contained within a copyrighted medium.”⁴⁷ The court reasoned that allowing such state law claims would interfere with the efficacy of the federal Act:

Were we to conclude that [the plaintiff’s] voice misappropriation claim was not preempted by the Copyright Act, then virtually every use of a copyrighted sound recording would infringe upon the original performer’s right of publicity. . . . It is hard to imagine how a copyright would remain meaningful if its licensees were potentially subject to suit from any performer anytime the copyrighted material was used.⁴⁸

Courts focus on the effect state law claims would have on the Act’s statutory purpose when applying the second requirement of the preemption test as well. Under this requirement, preemption occurs only if the rights asserted in the state law claim are “equivalent” to exclusive rights within the general scope of the Copyright Act.⁴⁹ In determining whether a state law claim is “equivalent” to a federal copyright infringement action, many circuits have applied the “extra element” test.⁵⁰ Under this test, the state law claim is equivalent to a federal copyright infringement action if it contains no extra elements beyond those required to show copyright infringement.⁵¹

The extra-element test has been criticized heavily for providing little guidance to courts on the issue of equivalence. Because there is always some variation between the state law claim and a copyright infringement claim, a court could always find “some difference, however small, that is the ‘extra element’ needed to avoid preemption.”⁵² Indeed, many commentators agree that “courts seem to first decide in-

47. *Id.* at 1141.

48. *Id.* at 1145.

49. 17 U.S.C. § 301(a) (2000).

50. *E.g.*, *Carson v. Dynegy, Inc.*, 344 F.3d 446, 456–57 (5th Cir. 2003); *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 456 (6th Cir. 2001); *Nat’l Car Rental Sys., Inc. v. Computer Assocs. Int’l, Inc.*, 991 F.2d 426, 431 (8th Cir. 1993); *Del Madera Props. v. Rhodes & Gardner, Inc.*, 820 F.2d 973, 977 (9th Cir. 1987), *overruled on other grounds*, *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994).

51. *See, e.g.*, *Carson*, 344 F.3d at 456–57.

52. Schuyler Moore, *Straightening Out Copyright Preemption*, 9 UCLA ENT. L. REV. 201, 204 (2002).

dependently whether or not they think preemption should apply,⁵³ and then use the extra-element test to reach that conclusion.⁵⁴

It is unclear whether courts have effectively jettisoned the extra-element test in favor of considering equivalence directly, or instead have begun to apply the extra-element test in a more meaningful way. What is clear is that, as with the subject matter requirement, courts do not interpret the equivalence requirement of the express preemption clause in a superficial or overly technical manner. Rather, consistent with preemption law generally, courts really focus on the extent to which state law claims will affect the accomplishment of copyright's purpose.

Consistent with this emphasis on purpose, the Second Circuit has said that it "take[s] a restrictive view of what extra elements transform an otherwise equivalent claim into one that is qualitatively different from a copyright infringement claim,"⁵⁵ and other circuits take an equally hard look at these elements. Courts attempt to sort out which extra elements are merely "illusory,"⁵⁶ and which ones actually "change[] the nature" of the claim,⁵⁷ or make the claim "qualitatively different" from a copyright infringement claim.⁵⁸ Thus, courts routinely find additional elements such as awareness, intent, or unjust enrichment are insufficient to survive preemption.⁵⁹ Moreover, sev-

53. *Id.*

54. *See* *Ritchie v. Williams*, 395 F.3d 283, 288 (6th Cir. 2005) (quoting MARSHALL LEAFER, UNDERSTANDING COPYRIGHT LAW § 11.07(C) (4th ed. 2005)).

55. *Briarpatch Ltd. v. Phoenix Pictures, Inc.*, 373 F.3d 296, 306 (2d Cir. 2004).

56. *See, e.g., Bowers v. Baystate Techs.*, 320 F.3d 1317, 1324 (Fed. Cir. 2003) ("[C]laims might be preempted whose extra elements are illusory . . .").

57. *Stromback v. New Line Cinema*, 384 F.3d 283, 301 (6th Cir. 2004); *see also* *Laws v. Sony Music Entm't, Inc.*, 448 F.3d 1134, 1144 (9th Cir. 2006) ("The extra element must transform the nature of the action.").

58. *See* *Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 431 (8th Cir. 1993) (concluding that a "contractual restriction" constituted an extra element).

59. *See Briarpatch*, 373 F.3d at 306 ("Like the elements of awareness or intent, the enrichment element here limits the scope of the claim but leaves its fundamental nature unaltered."); *Murray Hill Publ'ns, Inc. v. ABC Commc'ns, Inc.*, 264 F.3d 622, 637-38 (6th Cir. 2001) (finding an unjust enrichment claim equivalent to a copyright infringement claim); *Ehat v. Tanner*, 780 F.2d 876, 878 (10th Cir. 1985) (same); *see also* NIMMER & NIMMER, *supra* note 39, § 1.01 [B][1][g], at 1-51 (same).

Only claims requiring clearly different elements, such as control over tangible property (as in conversion) or breach of a confidential relationship or fiduciary duty (as in trade secret misappropriation), routinely survive copyright preemption analysis. *See, e.g., Carson v. Dynegy, Inc.*, 344 F.3d 446, 456-57 (5th Cir. 2003) (finding that under the "extra element" test, action for conversion of physical property under Texas law was not preempted because it requires "a showing of an 'unauthorized and wrongful assumption and exercise of dominion and control over the personal property of another, to the exclusion of or inconsistent with the owner's rights'" (quoting *Waisath v. Lack's Stores*, 474 S.W.2d 444, 447 (Tex. 1971))); *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 717 (2d

eral courts have found unfair competition claims and right of publicity claims equivalent to copyright claims (and therefore preempted), despite extra elements such as misappropriation for commercial advantage.⁶⁰

III. ANALYSIS

A. *Copyright Act Preemption of Contracts*

When courts consider preemption of breach of contract claims, their analysis is much more categorical than their analysis of preemption of other state law claims. In breach of contract cases, a licensor of a work of authorship typically licenses use of the work on terms less favorable to the licensee than the Copyright Act provides. For instance, the contract might provide that the licensee may use copyrightable elements of the work on the condition that she will refrain from using uncopyrightable elements of the work. Alternatively, the contract might require payment for use of an uncopyrightable work, or prohibit the licensee from using the work in a way that would be a non-infringing fair use of the work under the Act. Although these contract claims vary widely, and although many of them apparently conflict with provisions of the Copyright Act, courts have uniformly held that the Act does not preempt breach of contract claims.

The Copyright Act's preemption clause does not specifically address whether breach of contract claims should be preempted and does not distinguish between contract claims and other state law claims with regard to preemption.⁶¹ Courts simply attempt to apply to contract claims the same two-prong preemption test that they apply to

Cir. 1992) ("The defendant's breach of duty is the gravamen of . . . trade secret claims, and supplies the 'extra element' that qualitatively distinguishes such trade secret causes of action from claims for copyright infringement that are based solely upon copying."); *see also Briarpatch*, 373 F.3d at 306 (expressing that "a state law claim is qualitatively different if it requires such elements as breach of fiduciary duty . . . or possession and control of chattels").

60. *See, e.g., Laws*, 448 F.3d at 1144 (stating that "[t]he mere presence of an additional element [of 'commercial use'] is not enough to qualitatively distinguish [plaintiff's] right of publicity claim from a claim in copyright," because "[a]lthough the elements of [plaintiff's] state law claims may not be identical to the elements in a copyright action, the underlying nature of [plaintiff's] state law claims is part and parcel of a copyright claim"); *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 789 (5th Cir. 1999) (noting that although a state law claim for unfair competition by misappropriation required a showing of a substantial investment in the product and defendant's use of the product in competition with the plaintiff, these elements are often present in copyright claims and do not render the state law claim qualitatively different than a copyright claim).

61. Although there is some legislative history on the issue, it is subject to conflicting interpretations and is currently ignored by courts. This history relates to revisions of Section 301(b), which provides:

non-contract state law claims. Courts have little or no difficulty applying the subject matter requirement to contract claims in the same case-by-case manner that they apply it to other state law claims. Courts have a great deal of difficulty, however, in applying the equivalence requirement in this way.

There are three doctrinal approaches to determining whether a contract claim is equivalent to a copyright claim and therefore pre-

Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to . . . subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression”

17 U.S.C. § 301(b) (2000). As this section was originally drafted, subsection 3 included examples of state law claims that would not be preempted. Breach of contract actions were listed as one of the examples of claims not preempted. H.R. 4347, 89th Cong. (1966), *reprinted in* IV THE KAMINSTEIN LEGISLATIVE HISTORY PROJECT: A COMPENDIUM AND ANALYTICAL INDEX OF MATERIALS LEADING TO THE COPYRIGHT ACT OF 1976, at 27 (Alan Latman & James F. Lightstone eds., 1983). The committee report from the House of Representatives that accompanied the bill said that these examples were “intended to illustrate rights and remedies that are different in nature from the rights comprised in a copyright and that may continue to be protected under State common law or statute.” H.R. REP. No. 1476, at 132 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748. Moreover, the report stated that “[n]othing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract.” *Id.*

The list of examples, including breach of contract actions, was deleted from the final version of Section 301. There is some indication in the legislative history that the examples were omitted because the Justice Department was concerned that a different example, misappropriation actions, should not be included. It is not clear, however, that this was the only reason for the deletion. *See Nat’l Car Rental Sys.*, 991 F.2d at 433–34 & n.5 (discussing the legislative history of Section 301(b)(3)). United States Representative Seiberling recommended that the amendment delete the examples. He stated that his amendment was “intended to save the ‘Federal preemption’ of State law section, which is section 301 of the bill, from being inadvertently nullified because of the inclusion of certain examples in the exemptions from preemption.” 122 CONG. REC. H32015 (1976). He went on to say that the Justice Department supported the amendment because of its concern about the doctrine of misappropriation. *Id.*

Courts have been mixed on how to interpret this legislative history. At least one court interpreted the inclusion and subsequent deletion of contract actions to mean that Congress changed its mind and decided that such actions should be preempted after all. *See Wolff v. Inst. of Elec. & Elecs. Eng’rs, Inc.*, 768 F. Supp. 66, 69 (S.D.N.Y. 1991) (noting that Congress purposefully removed the section of the statute that would have created a “safe harbor” for those claims). Another court disagreed with that interpretation, concluding that the original inclusion of contract actions as an example of actions that are not preempted, coupled with evidence that the reason for the deletion related to a different example, reflects a “congressional intent not to preempt breach of contract actions.” *Nat’l Car Rental*, 991 F.2d at 433–34. Nimmer agrees with this view. *See NIMMER & NIMMER, supra* note 39, at 1–22 (discussing the court’s finding in *National Car Rental*); *see also O’Rourke, supra* note 1, at 517–21 (discussing *National Car Rental*’s rejection of *Wolff*’s interpretation of the legislative history of § 301(b)).

Given its ambiguity, the legislative history of Section 301(b) is simply not helpful to courts in determining whether the Copyright Act preempts a given contract. Indeed, this legislative history is rarely cited by courts any longer.

empted. The first approach holds that a contract right is simply not equivalent to a copyright because it reflects private ordering and applies only to those in privity. Put another way, the mutual promise required to make a contract is itself an “extra element” that defeats preemption.⁶² This categorical approach to contract preemption cases comes, in large part, from Judge Easterbrook’s decision in *ProCD v. Zeidenberg*.⁶³

The second approach is almost as categorical as the first, but argues in favor of contract preemption. This view, proposed by a number of copyright scholars, argues that contracts that upset the delicate balance struck by the Copyright Act should be preempted because they stand in the way of the federal statutory objectives.

The third approach purports to be a more nuanced extra-element test. Under this approach, courts hold that a contract claim is equivalent to a copyright claim where the licensee promises merely to refrain from infringing exclusive rights granted by the Copyright Act. If the contract includes a promise to do (or to refrain from doing) anything else, it is not equivalent. For instance, one court has held that a contractual promise to pay for the use of a work is an extra element that allows the contract to survive preemption.

The following sections evaluate in more detail the categorical and extra-element approaches to contract preemption.

I. Categorical Approaches to Contract Preemption

a. ProCD and the “Contracts Are Different” Approach

Judge Frank Easterbrook of the Seventh Circuit is probably the most notable proponent of the view that “a simple two-party contract is not ‘equivalent to any of the exclusive rights within the general scope of copyright’” and therefore should not be preempted.⁶⁴ He first articulated this view in *ProCD* in 1996.⁶⁵

62. Courts considering equivalence directly state that a contract claim is qualitatively different from a copyright infringement claim because a contract right binds only those in contractual privity. See, e.g., *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996) (noting that “[a] copyright is a right against the world,” whereas “contracts do not create ‘exclusive rights’”). Similarly, courts applying the extra-element test of equivalence say that the requirement of a bargained-for exchange constitutes an extra element that distinguishes the contract right from a copyright. See, e.g., *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990) (finding that the contract promise made by the plaintiff constituted an additional element and was therefore not preempted).

63. *ProCD*, 86 F.3d at 1447.

64. *Id.* at 1455.

65. *Id.*

In *ProCD*, the plaintiff had created an uncopyrightable database of information including telephone numbers and zip codes. He distributed the same database with at least two different shrinkwrap licenses. Under one contract, the buyer would pay a lower price but would be restricted to personal use. Under another contract, the buyer would pay a higher price but would be permitted to use the database commercially. The defendant bought the version allowing only personal use, and then used it for commercial purposes.⁶⁶

The plaintiff sued for breach of contract. The defendant argued first that the shrinkwrap license was unenforceable as a matter of contract law under the U.C.C. The defendant next argued that even if the license was valid under contract law, the Copyright Act preempted its enforcement because it restricted his use of uncopyrightable public domain information.⁶⁷ Specifically, it conflicted with the Supreme Court's decision in *Feist Publications v. Rural Telephone Service Co.* that such telephone entries constituted factual data that could not be protected by copyright.⁶⁸

Writing for the court, Judge Easterbrook first concluded that the shrinkwrap license was a valid contract under applicable provisions of the U.C.C. Because the U.C.C. allows the licensor to invite acceptance of the license terms in any manner, the court found that a contract was formed when the licensee opened the product package containing the license and used the product rather than returning it.⁶⁹

On the preemption issue, Judge Easterbrook agreed with the district judge's conclusion that ProCD's data were "within the subject matter of copyright," even though the data were uncopyrightable.⁷⁰ He explained that:

[o]ne function of § 301(a) is to prevent states from giving special protection to works of authorship that Congress has decided should be in the public domain, which it can accomplish only if "subject matter of copyright" includes all works of a *type* covered by sections 102 and 103, even if federal law does not afford protection to them.⁷¹

66. *See id.* at 1449–50 (describing ProCD's product, the two versions of its shrinkwrap licenses, and Zeidenberg's commercial use of the personal use version).

67. *See id.* at 1453 (noting that the lower court accepted Zeidenberg's argument and held that Section 301(a) of the Copyright Act prevents the enforcement of shrinkwrap licenses).

68. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 363–64 (1991).

69. *ProCD*, 86 F.3d at 1452–53.

70. *Id.* at 1453 (internal quotation marks omitted).

71. *Id.*

Judge Easterbrook disagreed with the district court's conclusion that the contract rights under dispute were "equivalent" to copyrights, however. Thus, he found the copyright claim was not preempted. He explained as follows:

Rights "equivalent to any of the exclusive rights within the general scope of copyright" [under section 301] are rights established *by law*—rights that restrict the options of persons who are strangers to the author. . . . A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create "exclusive rights."⁷²

While *ProCD* held open the possibility that some claims, while technically falling under "the label 'contract,'" might nevertheless be preempted, the court asserted that contracts generally should be enforced.⁷³ Several other courts have embraced this view, and *ProCD* is generally regarded as the leading case on the issue.⁷⁴

In a recent essay, Judge Easterbrook attempts to provide a more nuanced argument for why contracts should not be preempted.⁷⁵ He argues that the world is complex, and copyright covers a vast domain of information. As a result, it is impossible for the legislature or the judiciary to predict how legal rules will affect innovation and competition. Therefore, it is preferable to let people allocate rights for themselves. He states:

Does anyone really believe that one single allocation of rights to produce and use works best for movies, records, books, architectural plans, photographs, software, and so on? The domain of copyright is vast. The most anyone can *hope* for in a law is to create a framework—that is, to endow authors with a set of property rights—and let people work out the details for themselves.⁷⁶

He also asserts that there is nothing special about copyright to warrant greater regulation or less deference to private ordering than in other areas of law. He disputes the proposition that a copyright

72. *Id.* at 1454.

73. *Id.* at 1455.

74. *See, e.g.*, *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1324 (Fed. Cir. 2003) (citing *ProCD* for the proposition that state contracts limiting user rights are not preempted by the Copyright Act); *Lipscher v. LRP Publ'ns, Inc.*, 266 F.3d 1305, 1318 (11th Cir. 2001) (same); *see also* Olson, *supra* note 1, at 102 (describing *ProCD* as "the leading case regarding shrinkwrap licensing agreements").

75. Easterbrook, *Contract and Copyright*, *supra* note 1.

76. *Id.* at 961.

creates a monopoly in any real sense.⁷⁷ And while he admits that information is a non-rivalrous good, he argues that copyrights are more similar to ordinary property rights than many have asserted: “[A]lthough one can say that property rights in information are social constructs, so are property rights in cattle. They set the stage for contracts; they do not prevent contracts.”⁷⁸

b. Copyright Scholars and the “Delicate Balance” Approach

Judge Easterbrook’s categorical approach to contract preemption has been criticized heavily.⁷⁹ Indeed, the attack on *ProCD*’s approach to contract preemption began even before *ProCD* was decided. During the NCCUSL’s revision of the U.C.C. (which culminated in adoption of the UCITA), it confronted the issue of whether the U.C.C. should recognize shrinkwrap licenses as valid contracts.⁸⁰ Many commentators argued that it should not, at least not where the license limited user rights granted under the Copyright Act.

For example, Professor Mark Lemley weighed the arguments in favor of freedom of contract against arguments in favor of enforcement of federal copyright policy.⁸¹ He noted that the case for enforcing contracts was based on concepts of individual autonomy, economic efficiency, and protection of party expectations. On the other hand, he stated that the case for enforcing federal intellectual property policy is based on the idea that federal intellectual property law grants a set of limited rights to intellectual property owners that “reflects a ‘delicate balance’ between many different interests, and not all of those interests are represented in licensing contracts.”⁸² Thus, he argued that “[e]nforcing such contracts is inefficient because the contracts do not take into account the full social costs and benefits of the agreement between two parties.”⁸³

Moreover, Professor Lemley asserted that “the balance of intellectual property law is already tilted heavily in favor of the intellectual property owner,” and that “[t]he only countervailing forces favoring users are those rights specifically granted to users by federal law.”⁸⁴ In conclusion, he proposed an amendment to the U.C.C.’s Article 2B

77. *Id.* at 961–64.

78. *Id.* at 964.

79. *See, e.g.*, Nimmer et al., *supra* note 1, at 52–53; Olson, *supra* note 1, at 102.

80. *See* Lemley, *Intellectual Property*, *supra* note 1, at 1263 & nn.105–106 (discussing the approach used in drafting the U.C.C. regarding the preemption of shrinkwrap licenses).

81. *Id.* at 1263–64.

82. *Id.* at 1278.

83. *Id.* at 1286.

84. *Id.* at 1282.

that would invalidate a license term if it “creates an obligation or imposes a limitation on the licensee that is inconsistent with federal intellectual property law, or that deprives the licensee of a right or privilege granted the licensee under federal intellectual property law.”⁸⁵

Others have advocated similar approaches under Article 2B of the U.C.C., express preemption under Section 301, or implied preemption under the Supremacy Clause. For instance, David Nimmer, author of the leading copyright treatise, has argued that Article 2B “must proscribe contracting practices that seek to extend copyright protection beyond its current scope.”⁸⁶ Thus, he has argued that *ProCD* was wrongly decided because it allowed a database owner to use a shrinkwrap license to protect factual information that the Supreme Court had held was uncopyrightable.⁸⁷ Another commentator has argued that courts should apply implied constitutional preemption to contract claims, because express preemption under Section 301 is “necessarily limited” by the subject matter and equivalence requirements.⁸⁸ Thus, the thrust of the scholarly criticism of *ProCD* has been that contracts, especially form contracts such as shrinkwrap licenses, alter the “delicate balance” of rights established by the Copyright Act, and must therefore be preempted.

2. *Evaluation of Categorical Approaches to Contract Preemption*

Despite the seductive simplicity of Judge Easterbrook’s logic in *ProCD*, it is impossible to conclude that contracts should not be preempted based on the categorical notion that contracts affect only their parties and therefore do not create exclusive rights. This one-size-fits-all approach to preemption is inconsistent with preemption doctrine generally, as well as with preemption doctrine as it has been applied to non-contract state law claims under the Copyright Act.

First, state law claims do not survive preemption under the Copyright Act simply because they have a somewhat different scope than copyright infringement claims. All state law claims affect only parties who act in certain ways or who meet certain criteria. As such, they affect only a subset of those affected by the Copyright Act. Neverthe-

85. *Id.* at 1292.

86. Nimmer et al., *supra* note 1, at 19.

87. See NIMMER & NIMMER, *supra* note 39, § 1.01[B][1][a][iii]; Nimmer et al., *supra* note 1, at 52–53 (expressing that *ProCD* “violated a core polic[y] of the Copyright Act by extending quasi-copyright protection to works that do not qualify as ‘original’”).

88. See Olson, *supra* note 1, at 130 (“Constitutional preemption . . . gives courts much broader power to strike down state claims or state laws that threaten the ‘precarious balance’ . . . struck by federal copyright law.”).

less, courts preempt many of these state law claims.⁸⁹ For instance, an unfair competition claim requiring misappropriation for commercial advantage applies only to those parties who compete with the plaintiff. Because there is no such requirement in copyright, this state law claim is not coextensive with a copyright infringement claim. Indeed, it can be said that this state law claim also does not create exclusive rights that are equivalent to copyrights because it does not apply to everyone but only to those who decide to compete with the plaintiff. Yet, many courts have held that this claim is equivalent to a copyright claim and therefore preempted.⁹⁰

Second, Judge Easterbrook's argument that contracts should not be preempted is at odds with his earlier work on economic interpretation of statutes.⁹¹ He has previously argued that special-interest statutes are essentially "contracts" among special-interest groups who lobby for legislation. As such, he has said that they should be construed narrowly against these groups just as ordinary contracts are construed against the drafters.⁹² Because Congress's purpose in passing this legislation is simply to enforce the legislative "deal" struck among these groups, the narrow construction rule would effectuate legislative intent by giving the parties only what the statute clearly provides.⁹³ Thus, under his view, parties should not be allowed to circumvent the deal they agreed to before Congress by arguing for greater rights in the courts.

Indeed, Judge Easterbrook has suggested that courts should pay particular attention to special-interest influence in areas such as "anti-trust, intellectual property, and securities regulation—the 'traditional' economic subjects."⁹⁴ Moreover, he has observed that special-interest legislation typically confers concentrated benefits to some groups while imposing diffuse costs to other groups, has a detailed structure

89. *See supra* notes 49–60 and accompanying text (discussing judicial application of the "extra-element" test for determining whether state law claims are equivalent to copyright claims).

90. *See supra* note 60 and accompanying text.

91. *See* Frank H. Easterbrook, *The Court and the Economic System*, 98 HARV. L. REV. 4, 15 (1984) [hereinafter Easterbrook, *The Court*] (explaining that judges may alter "economic relations on the basis of . . . statutes generally . . . designed to overcome 'failures' in markets" in certain situations); *see also* Christina Bohannon, *Reclaiming Copyright*, 23 CARDOZO ARTS & ENT. L.J. 567, 576–77 (2006) (discussing Judge Easterbrook's economic approach to statutory interpretation and arguing that this and other approaches to statutory interpretation require construing the Copyright Act in favor of the public interest).

92. Easterbrook, *The Court*, *supra* note 91, at 15.

93. *See id.* ("The maxim 'Statutes in derogation of the common law are to be strictly construed' sums up this approach.")

94. *See id.* at 18 (arguing that courts should not "limit the application" of economic themes of interpretation to these "'traditional' economic subjects").

reflecting interest group compromise, and has a legislative history documenting the influence of interest groups.⁹⁵

As I have argued elsewhere, the Copyright Act bears all of Judge Easterbrook's indicia of special-interest legislation.⁹⁶ The benefits of copyright protection are concentrated in copyright owners, while the costs of that protection are spread among all users of copyrighted works, essentially the entire public.⁹⁷ Thus, copyright owners have an incentive to lobby for expansive protection, while individual users do not, even where the aggregate costs to users are greater than the aggregate benefits to the copyright owners.⁹⁸ Moreover, the complex and detailed structure of the Act, as well as its legislative history, "reveal[] that most of [its] statutory language was not drafted by members of Congress or their staffs at all . . . [but instead] evolved through a process of negotiation among authors, publishers, and other parties with economic interests in the property rights the statute defines."⁹⁹

Under Judge Easterbrook's approach to statutory interpretation, special-interest statutes such as the Copyright Act should be treated like contracts and construed narrowly against interest groups like those representing copyright owners.¹⁰⁰ This view seems to support the pro-preemption view that because copyright law is already tilted in favor of copyright owners, they should be held to the deal and should not be able to enlarge their copyrights through other means.¹⁰¹ Thus, it is unclear why Judge Easterbrook asserts in *ProCD* that copyright owners should be able to enlarge their rights by contract as a matter of course.¹⁰² More specifically, it is unclear why he interprets the Copyright Act's preemption clause in a way that virtually never preempts copyright owners from enlarging the rights they bargained for before Congress.

Third, the *ProCD* decision mischaracterizes Supreme Court precedent on this issue. *ProCD* states the broad proposition that "courts usually read preemption clauses to leave private contracts unaffected," citing the Supreme Court's decision in *American Airlines, Inc. v.*

95. *See id.* at 16–18.

96. Bohannon, *supra* note 91, at 581–86.

97. *Id.* at 582.

98. *Id.*

99. *See id.* at 584 (quoting Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 860–61 (1987)) (internal quotation marks omitted).

100. Easterbrook, *The Court*, *supra* note 91, at 15.

101. *See supra* notes 91–93 and accompanying text.

102. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir. 1996).

*Wolens*¹⁰³ as an example.¹⁰⁴ But *Wolens* cannot be read to support such a sweeping proposition.

Wolens considered the scope of the preemption clause of the Airline Deregulation Act (ADA), which partially repealed the Federal Aviation Act (FAA) of 1958.¹⁰⁵ The ADA's preemption clause provides, in relevant part, that "[N]o State . . . shall enact or enforce any law, rule, regulation, standard, or other provision having the force and effect of law relating to rates, routes, or services of any air carrier"¹⁰⁶ The Supreme Court acknowledged that the language of the ADA's preemption clause could easily be read to preempt all kinds of state laws, including a state's enforcement of contract law.¹⁰⁷ The Court held, however, that although the clause preempted a state law claim for consumer fraud, it did not preempt a state law contract claim.¹⁰⁸

In *ProCD*, Judge Easterbrook suggests that the Supreme Court's disparate treatment of these two claims reflects a categorical distinction between a generally applicable state law and a private agreement that is merely enforced by state contract law.¹⁰⁹ Thus, he says, "The Court allowed that it is possible to read the statute that broadly [to preempt contract claims] but thought such an interpretation would make little sense. Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of markets."¹¹⁰

Contrary to Judge Easterbrook's suggestion, however, the *Wolens* Court's decision that the ADA does not preempt private agreements was not based on a simplistic distinction between private agreements and general laws. Rather, consistent with preemption doctrine generally, the Court reached this result only after conducting a painstaking analysis of the ADA's preemption clause in light of the particular purpose of the statute.¹¹¹ Because the purpose of the ADA is somewhat unusual—unlike most other statutes, it seeks to deregulate an industry

103. 513 U.S. 219 (1995).

104. *ProCD*, 86 F.3d at 1454.

105. *Wolens*, 513 U.S. at 222.

106. 49 U.S.C. app. § 1305(a)(1) (1988).

107. *Wolens*, 513 U.S. at 229 n.5.

108. *See id.* at 228 ("We do not read the ADA's preemption clause . . . to shelter airlines from suits alleging no violation of state-imposed obligations, but seeking recovery solely for the airline's alleged breach of its own, self-imposed undertakings.").

109. *ProCD*, 86 F.3d at 1454–55.

110. *Id.*

111. *Wolens*, 513 U.S. at 221–28.

rather than regulate it¹¹²—the Court placed particular emphasis on that purpose in its analysis.

The *Wolens* Court acknowledged that because the ADA's preemption clause bans a state from "'enforc[ing]'" as well as "'enact[ing]'" certain laws, it "could perhaps be read to preempt even state-court enforcement of private contracts."¹¹³ It concluded, however, that

the ban on enacting or enforcing any law "relating to rates, routes, or services" is most sensibly read, in light of the ADA's overarching deregulatory purpose, to mean "States may not seek to impose their own public policies or theories of competition or regulation on the operations of an air carrier."¹¹⁴

Thus, the Court explained that private contracts are not preempted under the ADA because they do not conflict with the ADA's deregulatory purpose: "The ADA . . . was designed to promote 'maximum reliance on competitive market forces,'" and that "[m]arket efficiency requires effective means to enforce private agreements."¹¹⁵

Clearly, *Wolens* does not reflect a categorical rule that federal statutes ordinarily do not preempt private contracts. Rather, it reflects a detailed analysis of the language and purpose of a statute's particular express preemption clause. Because the ADA was enacted to deregulate the industry, the court concluded that preemption of private contracts under the statute would be antithetical to its purpose.

But this reasoning does not apply to regulatory statutes like the Copyright Act. The Copyright Act strikes a balance among numerous parties with interests in copyrights, including authors, publishers, libraries, educational institutions, and others.¹¹⁶ There is no reason that a comprehensive statute that finely tunes the rights and liabilities of many affected groups should have as little preemptive effect as one that encourages industry players to do as they please.

There are also important textual differences between the ADA and Copyright Act preemption clauses that suggest courts should take a different approach to preemption under the two statutes. The ADA preemption clause says that "[N]o State . . . shall enact or enforce any

112. Thus, the Court reiterated numerous times "the ADA's purpose to leave largely to the airlines themselves, and not at all to States, the selection and design of marketing mechanisms appropriate to the furnishing of air transportation services." *Id.* at 228.

113. *Id.* at 229 n.5 (quoting Brief for United States as Amicus Curiae In Support of Reversal at 17, *Am. Airlines, Inc. v. Wolens*, 513 U.S. 219 (1995) (No. 93-1286)) (internal quotation marks omitted).

114. *Id.* (quoting Brief for United States, *supra* note 113, at 16).

115. *Id.* at 230.

116. *See, e.g.*, Litman, *supra* note 99, at 869.

law, rule, regulation, standard, or other provision having the force and effect of law relating to rates, routes, or services of any air carrier”¹¹⁷ Significantly, this language operates against the states and is an express prohibition on state action. As such, it lends credibility to the *Wolens* Court’s conclusion that “the word series ‘law, rule, regulation, standard, or other provision . . . connotes official, government-imposed policies, not the terms of a private contract.’”¹¹⁸

By contrast, Section 301 of the Copyright Act actually preempts individual ownership of certain rights. It states that “no person is entitled to any such right or equivalent right,” except as provided by the Act.¹¹⁹ This language undermines Judge Easterbrook’s assertion that the Copyright Act’s preemption clause, like the ADA’s preemption clause, does not affect contract rights because its purpose is only to “prevent[] states from substituting their own regulatory systems for those of the national government.”¹²⁰

Finally, and most important, Judge Easterbrook is simply wrong that contracts affect only their parties and are therefore ordinarily immune to copyright preemption.¹²¹ Judge Easterbrook’s approach assumes that the entire Copyright Act merely sets default rules that parties may contract around. He believes that the Copyright Act simply fills in for the market where transactions costs are too high. In his view, as technology reduces transactions costs, it facilitates contracts that supersede the statutory regime. Thus, he argues:

It is ironic that just as a global network and automation are reducing the costs of contracting, some scholars promote contract-defeating schemes. One is tempted to think that they are concerned not about market failures but about market successes—about the prospect that the sort of world people prefer when they vote with their own pocketbooks will

117. 49 U.S.C. app. § 1305(a)(1) (1988).

118. *Wolens*, 513 U.S. at 229 n.5 (quoting Brief for United States, *supra* note 113, at 16).

119. 17 U.S.C. § 301(a) (2000).

120. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1455 (7th Cir. 1996). Moreover, as the *Wolens* Court noted, the ADA left intact a savings clause from the FAA, which provided that “[n]othing . . . in this chapter shall in any way abridge or alter the remedies now existing at common law or by statute, but the provisions of this chapter are in addition to such remedies.” *Wolens*, 513 U.S. at 222 (quoting Federal Aviation Act of 1958, 49 U.S.C. app. § 1506 (1988)). Thus, the Court thought that its holding was necessary to “make[] sense of” Congress’s decision to retain that clause. *Id.* at 232. The Copyright Act contains no such savings clause.

121. *ProCD*, 86 F.3d at 1454–55.

depart from the proposers' ideas of what people *ought* to prefer.¹²²

It is clear, however, that copyright law strikes a delicate balance among many different parties with varying interests, many of whom are not parties to these license agreements. Unfortunately, some copyright scholars have used this argument to support an approach to contract preemption that is nearly as categorical as Judge Easterbrook's approach. The "delicate balance" approach suggests that contracts should be invalidated any time they provide for a different allocation of rights than the Copyright Act provides, particularly when the contract is a form contract or shrinkwrap license.¹²³

The "delicate balance" approach would not force courts to consider each contract claim's effect on copyright policy any more than the "contracts are different" approach does. Rather, the "delicate balance" approach seems to weigh arguments in favor of contract against arguments in favor of copyright policy at the wholesale level, concluding that the cumulative interests in effectuating copyright policy are too important to permit enforcement of any of these contracts. Such a draconian approach to contract preemption is reminiscent of field preemption, which is clearly inapplicable to a statute like the Copyright Act that depends on contracts to achieve its objectives.¹²⁴ It is no wonder, then, that Professor Lemley has argued that other doctrinal tools such as misuse should be used to police license agreements, because "[u]sing preemption doctrine against contracts is something like swinging a sledgehammer at a gnat."¹²⁵

122. Easterbrook, *Contract and Copyright*, *supra* note 1, at 967. This point is merely a more technical version of Easterbrook's holding in *ProCD* that contracts should not be preempted because they affect only those in privity. If the only purpose of a statutory provision is to provide a default rule when transactions costs are too high for individual parties to contract, and technology solves the transactions costs problem, then the resulting contract must affect only those who are parties to the contract.

123. See, e.g., Lemley, *Beyond Preemption*, *supra* note 12. In fairness to Professor Lemley, he recognizes that some of the Copyright Act's provisions might set default rules, but he says that does not justify treating all the provisions as default rules. His proposal, however, was that all shrinkwrap licenses contradicting federal copyright law should be invalidated. Although his proposal was intended to amend the draft U.C.C., which had made shrinkwrap licenses presumptively enforceable as a matter of contract law, he made it clear that his approach was based in large part on preemption principles. To that extent, his approach is too categorical because it does not allow or require courts to assess whether a particular contract interferes with the purpose of federal copyright law.

124. See generally Wolfson, *supra* note 1, at 84–93 (explaining that information industries rely on contracts to protect certain types of content from unrestricted use and to increase access to information).

125. Lemley, *Beyond Preemption*, *supra* note 12, at 145. This is a true statement given the categorical way in which preemption law has been applied to contract claims. This Article provides a more nuanced approach.

Thus, one side of the debate assumes that contracts modifying statutory copyrights always affect others and therefore always should be preempted. The other side of the debate assumes that such contracts never affect others and therefore never should be preempted. Neither side requires courts to consider which contracts interfere with copyright policy and which ones do not.

3. *The Extra-Element Approach*

Other courts purport to take a more nuanced approach to contract preemption, holding that not “all state law contract claims survive preemption simply because they involve the additional element of promise.”¹²⁶ Rather, they decide whether a contract claim should be preempted by applying the extra-element test applicable to non-contract state law claims.¹²⁷ Under the extra-element test, courts consider whether the state law right would “be abridged by an act which, in and of itself, would infringe one of the exclusive rights [granted by the Copyright Act].”¹²⁸ Thus, in contract preemption, courts have held that “[i]f the promise amounts only to a promise to refrain from reproducing, performing, distributing or displaying the work, then the contract claim is preempted.”¹²⁹

The leading copyright treatise, *Nimmer on Copyright*, supports this approach to express preemption in most cases:

[a] *Breach of Contract*. Adverting first to contract rights . . . pre-emption should be found absent to the extent that a breach of contract cause of action alleges more than simply reproduction (or adaptation, distribution, *etc.*) of a copyrighted work. For example, although an author’s right to royalties under a publication contract . . . may be conditioned on the publisher’s acts of reproduction and distribution of copies of the work, there is another crucial act that stands as a condition to the publisher’s liability: the publisher’s promise to pay the stated royalty.¹³⁰

The extra-element approach to preemption seems less categorical than Judge Easterbrook’s “contracts are different” approach, be-

126. *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 457 (6th Cir. 2001).

127. *Id.* at 458.

128. *Harper & Row Publ’rs, Inc. v. Nation Enters.*, 723 F.2d 195, 200 (2d Cir. 1983), *rev’d on other grounds*, 471 U.S. 539, 569 (1985).

129. *Wrench*, 256 F.3d at 457; *see also* *Brignoli v. Balch Hardy & Scheinman, Inc.*, 645 F. Supp. 1201, 1205 (S.D.N.Y. 1986) (noting that a state contract claim is preempted if the claim is premised solely on allegations that a defendant made unauthorized use of material in violation of copyright law).

130. *NIMMER & NIMMER*, *supra* note 39, § 1.01[B][1][a][i].

cause it purports to examine the content of contractual promises. In practice, however, the two approaches virtually always yield the same result: the contract is not preempted. The reason for this convergence is that contracts controlling the use of a work of authorship usually contain some additional promise that is at least nominally different from the promise to refrain from infringing an exclusive right. Contracts are probably unnecessary if breach of the contract occurs simultaneously with copyright infringement. Thus, contracts are likely to include not merely promises to refrain from violating copyrights, but rather promises to pay some amount for the use of a work or to refrain from using the work in a way the Copyright Act otherwise would allow. Because the extra-element test focuses on whether the elements of the contract claim are the same as the elements of a copyright claim, courts generally find that such an additional promise defeats express preemption. Thus, the Nimmer treatise concludes that “contract-based rights . . . are typically not subject to preemption.”¹³¹

Moreover, as we have seen in preemption of non-contract state law claims, the extra-element test is too malleable to be coherent and provides little real guidance to courts in deciding whether the claims should be preempted. Most state law claims (such as unfair competition or misappropriation) also contain some kind of additional element. In those cases, courts have begun to look more closely at such elements in order to determine whether the state law claim interferes with the purpose of a federal statutory provision.

Similarly, courts addressing contract preemption should decide cases based on whether the contract claim interferes with federal copyright policy. The extra-element test is not an accurate diagnostic tool for making this determination. In practice, the extra-element test usually preempts to the same extent as the “contracts are different” approach. It is capable, however, of both over- and under-preempting. That is, contract claims that do not contain an additional promise are always preempted even though they sometimes do not interfere with copyright policy, and contract claims containing an additional promise are never preempted even though they do sometimes interfere with copyright policy.

131. *Id.* § 1.01[B][1][a][i]. He notes only a few “untypical” situations in which they would be preempted. For instance, under conflict preemption, a contract would not be enforceable under state law if it was not made in accordance with the Copyright Act’s express requirements for that type of contract. Thus, for example, because the Act requires copyright assignments to be in writing, it would preempt a state’s attempt to make an oral assignment enforceable. *Id.* § 1.01[B][3][a].

For instance, in *Wolff v. Institute of Electrical & Electronics Engineers, Inc.*, a district court held that the Copyright Act preempted a contract claim because it lacked an extra element, even though the claim did not interfere with copyright policy.¹³² The plaintiff alleged that the defendant had infringed his copyright and breached their contract by republishing a photograph that the plaintiff had licensed to the defendant for a single publication.¹³³ The court held that the Copyright Act preempted the breach of contract claim because the contract merely promised not to reproduce the photograph, which it concluded was equivalent to a promise to refrain from committing copyright infringement.¹³⁴

It is clear, however, that the contract claim did not interfere with copyright policy, and therefore should not have been preempted. Indeed, it is likely that the contract furthered copyright policy. Under the Copyright Act, the plaintiff owned the exclusive right to reproduce his photograph. The purpose of granting authors the exclusive right to reproduce their works is so that they may obtain compensation from others for the right to reproduce those works. The contract merely defined the extent of the rights the plaintiff agreed to license to the defendant. Thus, the contract was simply the means by which the copyright owner exchanged certain of her exclusive rights for payment. Because the photograph was copyrightable and its reproduction did not constitute fair use, the agreement complemented copyright law and should not have been preempted.

On the other hand, in *Wrench LLC v. Taco Bell Corp.*, the Sixth Circuit held that because a contract contained an additional promise—a promise to pay for use of a work—the contract claim was not preempted.¹³⁵ Applying the extra-element test, the court explained that “[i]t is not the use of the work alone but the failure to pay for it that violates the contract and gives rise to the right to recover damages.”¹³⁶ By concluding that the mere existence of this element defeated preemption, the court failed to consider the ways in which the contract might have impaired copyright policy.

132. 768 F. Supp. 66, 69 (S.D.N.Y. 1991).

133. *Id.* at 67.

134. *Id.* at 69. The *Wolff* court relied in part on the legislative history of Section 301(b)(3), concluding that Congress’s deletion of contract actions as a category of non-preempted claims meant that Congress did not intend generally to exempt these actions from preemption. *Id.*; see also *supra* note 61.

135. 256 F.3d 446, 457 (6th Cir. 2001).

136. *Id.* at 456.

In *Wrench*, plaintiff Wrench was a company that produced, marketed, and licensed the “Psycho Chihuahua” cartoon character.¹³⁷ The character was described as “a clever, feisty dog with an attitude; a self-confident, edgy, cool dog who knows what he wants and will not back down.”¹³⁸ Taco Bell employees saw the character at a trade show.¹³⁹ After consulting with Wrench employees, they began promoting Psycho Chihuahua within Taco Bell as an idea for an advertising campaign.¹⁴⁰ The Taco Bell employees worked with Wrench’s licensing agents for many months to develop marketing ideas for Taco Bell using the Psycho Chihuahua.¹⁴¹ In the end, however, Taco Bell decided not to use Psycho Chihuahua.¹⁴²

In the meantime, Taco Bell had hired a new advertising agency.¹⁴³ Within a couple of months, the agency proposed a commercial to Taco Bell in which a real (non-cartoon) “male Chihuahua would pass up a female Chihuahua to get to . . . Taco Bell food.”¹⁴⁴ The agency claimed that two of its employees conceived of the idea independently.¹⁴⁵ After consumers reacted positively to the commercial, Taco Bell made the Chihuahua the focus of a national advertising campaign.¹⁴⁶

Wrench brought suit against Taco Bell for breach of an implied-in-fact contract as well as for several tort and statutory claims under state law.¹⁴⁷ The district court found that there was sufficient evidence to support an implied-in-fact contract, but held that the Copyright Act preempted the contract claim because Wrench’s “right to be paid under the contract was equivalent to the exclusive rights that the Copyright Act grants to authors.”¹⁴⁸

The Sixth Circuit reversed and remanded, holding that the promise to pay in the implied-in-fact contract constituted an extra element that allowed the contract claim to survive preemption.¹⁴⁹ The court

137. *Id.* at 449.

138. *Id.*

139. *Id.* at 449–50.

140. *Id.* at 450.

141. *Id.*

142. *Id.* at 451.

143. *Id.*

144. *Id.*

145. *Id.*

146. *Id.*

147. *Id.*

148. *Id.* at 452 (citing *Wrench LLC v. Taco Bell Corp.*, 51 F. Supp. 2d 840, 848–58 (W.D. Mich. 1999)).

149. *Id.* at 457.

treated the *Wrench* case as a straightforward application of the extra-element test and Nimmer's publication contract example:

[A]s in the example given in *Nimmer on Copyright*, there is another crucial act that stands as a condition to the appellee's liability, to wit: its promise to pay for the use of the work. Thus, this is a case in which the breach of contract cause of action alleges more than reproduction, adaptation, etc., *simpliciter*.¹⁵⁰

The *Wrench* court's application of the extra-element test is far too simplistic. The Copyright Act encourages innovation by giving authors exclusive rights in their works of authorship. The exclusive rights do not guarantee that an author's work will be commercially viable, but they do generally require payment for use of the work if it does become commercially viable. Thus, the right to payment for a work is, in some sense, equivalent to an exclusive right in the work. Accordingly, the court was wrong to conclude that a promise to pay for use of a work is, categorically, an extra element that defeats preemption. Other courts have made the same mistake.¹⁵¹

Instead, courts must consider the nature of the contract claim and the facts of the case to determine whether a promise to pay interferes with copyright policy. In some cases, a contractual promise to pay for use of a work actually serves copyright policy. Where the contract requires the licensee to pay to use a work in a way that otherwise would clearly constitute copyright infringement, the contract is consistent with copyright policy. Nimmer's example of a publication contract,¹⁵² cited by the court in *Wrench*,¹⁵³ falls into this category. With a publication contract, it is usually clear that the author owns the copyright in the work that the publisher wishes to reproduce and distribute. Thus, the publication contract, like the contract at issue in *Wolff*,¹⁵⁴ is simply the means by which the author exchanges certain of her exclusive rights for payment. As such, the agreement furthers the purpose of the Copyright Act and should not be preempted.

Contractual promises to pay would also be permissible where they are made in exchange for something other than a simple license to

150. *Id.*

151. *See, e.g.,* Acorn Structures, Inc. v. Swantz, 846 F.2d 923, 926 (4th Cir. 1988) (finding no preemption for a breach of contract claim when the contract involved a separate promise to pay for use of copyrighted work); Brignoli v. Balch Hardy & Scheinman, Inc., 645 F. Supp. 1201, 1205-06 (S.D.N.Y. 1986) (same).

152. *See supra* note 130 and accompanying text.

153. 256 F.3d at 457.

154. *Wolff v. Inst. of Elec. & Elecs. Eng'rs, Inc.*, 768 F. Supp. 66 (S.D.N.Y. 1991).

use the work. For instance, there is often uncertainty as to whether the use of the work would constitute copyright infringement. In such cases, the user often promises to pay the copyright owner to resolve the ambiguity and avoid future litigation or settle pending litigation. Likewise, users also sometimes promise to pay the copyright owner for consulting services or for pre-publication access to the work. In these situations, the promises to pay should be enforceable.

In other cases, however, the contractual promise to pay should not be enforceable. Where the contract promises to pay either to use a work that clearly is not copyrightable or to use a work in a way that clearly constitutes fair use, the contract presents an apparent conflict with copyright policy. *Wrench* is arguably such a case. Taco Bell argued that its advertising agency independently developed the Chihuahua advertising campaign.¹⁵⁵ Moreover, even if Taco Bell got the Chihuahua concept from *Wrench*, issues would remain regarding whether Taco Bell appropriated copyrightable expression or merely an uncopyrightable idea. If Taco Bell either independently developed the concept or used only an uncopyrightable idea, it is pretty clear that it did not violate *Wrench*'s copyright and would not have to pay for use of the concept under the Copyright Act. In either event, the contractual promise runs contrary to copyright policy because it requires payment for a use of material that the Copyright Act says should be free.

This conflict presents a substantial preemption issue. Indeed, the reason that courts have held that the preemption clause applies to both copyrightable and uncopyrightable subject matter is to ensure that works of authorship will not be protected where the Copyright Act would leave them in the public domain.¹⁵⁶

The point here is not that promises to pay to use a work are always preempted where the use would not constitute infringement. Rather, the point is that courts need to dispense with the simplistic rule that a promise to pay is *per se* an extra element that defeats preemption. Courts must consider the particular contract as well as the facts of the case to determine whether the contract claim interferes with copyright policy. Where the contract contains a promise to pay for something other than a simple license to use the work, or to pay for a license to use the work in a way that clearly would constitute copyright infringement, the contract claim should not be preempted. On the other hand, where the contracting party promises to pay to

155. *Wrench*, 256 F.3d at 451.

156. See *supra* notes 40–44 and accompanying text.

use the work in a way that clearly would not require compensation under the Copyright Act, the question is more complicated. In that case, courts should treat the promise to pay the same as a promise to refrain from violating an exclusive right and then determine whether the contract claim ought to be preempted under the proposed approach.

B. A Proposed Approach to Contract Preemption: Insights From Contractual Waiver of Statutory Rights

As the foregoing sections show, the fact that contracts are not state-created obligations and depend on state law only for their enforcement makes it easy for courts to decide that contract claims are different from other state law claims preempted by the Copyright Act. Judge Easterbrook admits that federal copyright law preempts many state law claims, but he believes that contracts are not similarly preempted. He says that individual contractual promises do not affect copyright policy because they apply only to the individuals who made them, and individuals can decide better than Congress how to deal with copyrights.¹⁵⁷ Similarly, although the *Taco Bell* court undoubtedly would have preempted a state law requiring payment to copy an uncopyrightable work, the court viewed an individual party's promise to pay differently and did not preempt the contract claim.¹⁵⁸

Copyright scholars, on the other hand, have argued almost uniformly that federal copyright policy should preempt contracts whose terms differ from those of the Copyright Act. Yet, copyright must allow some room for freedom to contract, and intuitively it does seem that contract claims are different from copyright infringement claims in ways that matter in preemption analysis.

Thus, copyright law lacks a coherent rule for contract preemption that harmonizes the individual interest in freedom of contract and the societal interest in federal copyright policy. As a result, preemption doctrine is incapable of providing an effective remedy for contractual overreaching.

In developing a rule for copyright preemption of contracts, it is useful to consider why this issue has proved so difficult. At least a partial explanation is that preemption analysis is not well-suited to contract claims. Technically, this is a preemption issue because private contracts depend on state law for enforcement. But unlike in most preemption cases, the issue in contract preemption cases is not

157. Easterbrook, *Contract and Copyright*, *supra* note 1.

158. *Wrench*, 256 F.3d at 457.

whether a state regulatory scheme is likely to supplant a federal scheme. Rather, the issue is whether individuals should be able to contract away rights granted by the federal Copyright Act.

Accordingly, although courts should continue to treat this as a preemption issue, their preemption analysis should draw more from the law related to contractual waiver of statutory rights. This body of law governs the extent to which individual waivers of statutory rights are enforceable and has been applied to a variety of state and federal statutes.¹⁵⁹

The law governing contractual waivers of statutory rights is readily applicable to cases involving copyright preemption of contracts. In these cases, the challenged contracts typically involve a promise by a licensee (user) not to use a work of authorship in a way that would be permitted or privileged by the Copyright Act. For example, licensees might promise not to copy uncopyrightable ideas from a work, although the Act would leave these ideas in the public domain for all to use freely. Or licensees might promise not to copy any part of a copyrightable work, although the Act would privilege some of this copying under the fair use doctrine. In these cases, the contractual promise constitutes a contractual waiver of a statutory right.¹⁶⁰ Thus, courts considering whether the Copyright Act should preempt such contracts can gain valuable insights by looking at the law governing contractual waivers of statutory rights.

In general, the law governing contractual waivers of statutory rights has established two requirements for enforceability of such waivers. A waiver is enforceable only if (1) it is “clear and unmitak-

159. See, e.g., *Kristian v. Comcast Corp.*, 446 F.3d 25, 29 (1st Cir. 2006) (holding that an individual’s contractual waiver of the right to sue under state and federal antitrust laws was invalid where the contractual prohibition on arbitration award of treble damages and attorney fees violated state and federal antitrust policy); *Olympic Pipe Line Co. v. City of Seattle*, 437 F.3d 872, 882–83 (9th Cir. 2006) (holding that an individual may not waive the right to assert that federal law preempts state law); *EEOC v. Frank’s Nursery & Crafts, Inc.*, 177 F.3d 448, 468 (6th Cir. 1999) (stating that an individual waiver of the right to sue under Title VII does not waive the EEOC’s right to sue the same defendant for public enforcement of Title VII violations); *In re Tulsa Energy, Inc.*, 111 F.3d 88, 90 (10th Cir. 1997) (applying waiver doctrine under Oklahoma law); *Canal Elec. Co. v. Westinghouse Elec. Corp.*, 548 N.E.2d 182, 187 (Mass. 1990) (applying waiver doctrine under Massachusetts law).

160. I use the term “right” here broadly to include all privileges granted to users by the Copyright Act. This usage is consistent with the terminology of “user rights” in the literature on copyright license agreements and does not attempt to resolve or finesse the deeper issue regarding the general distinction between rights and privileges.

ble,¹⁶¹ and (2) it waives a statutory right designed to protect the interests of individual parties rather than the public.¹⁶²

Both of these requirements help to balance freedom of contract with federal copyright policy. The requirement that the waiver must be clear and unmistakable helps to ensure that, in an age when statutory rights are waived by opening a package or clicking a button, the user will at least understand clearly that she is waiving her rights. Thus, it protects federal copyright policy by keeping the federal statutory provision in place until it is clearly waived. Moreover, because the law will not imply a waiver of statutory rights from ambiguous contractual language, the drafter has an incentive to make the contract explicit. As a result, the requirement should facilitate informed contracting. Where the waiver is clear and unmistakable, it will be enforced unless it fails the second requirement.

The second requirement, that waivers are enforceable where they protect individual rather than public interests, strikes the correct balance between freedom of contract and federal copyright policy by showing courts how to conduct an appropriate preemption analysis in contract cases. Statutory purpose is the touchstone of preemption analysis, and courts typically consider whether a state law claim interferes with that purpose by considering the factual and legal details of each claim. Nevertheless, courts overwhelmingly have held that individual contractual promises regarding uses of works of authorship are not preempted on the theory that those promises are not equivalent to copyrights and therefore do not interfere with copyright policy. By contrast, copyright scholars have argued that all contractual promises to waive copyright's statutory protections should be preempted because they violate copyright policy by upsetting copyright's "delicate balance" of rights.

It is clear, however, that some contracts interfere with the purpose of copyright law while others do not. The second waiver requirement shows that whether a contractual promise to waive rights conferred by a statutory provision ought to be preempted depends upon whose interests the statutory provision protects. Some statutory provisions merely set a default rule to define the rights of parties where those particular parties might be unable to reach an agreement, presumably due to transaction costs. For instance, the copying of very small amounts of material is permitted under both the fair use

161. *E.g.*, *Uforma/Shelby Bus. Forms, Inc. v. NLRB*, 111 F.3d 1284, 1289 (6th Cir. 1997).

162. *E.g.*, *In re Tulsa*, 111 F.3d at 90; *Canal Elec.*, 548 N.E.2d at 187.

and *de minimis* doctrines. In some cases, these doctrines protect such copying on the ground that transactions costs are greater than the amount that would be paid for the minimal copying.¹⁶³ Today, computer software and other technology have begun to facilitate the convenient payment of small amounts for small uses. As this technology becomes widespread, it could overcome the transactions costs problem, allowing contracts to be formed regarding the small uses of copyrighted material. While the “delicate balance” approach suggests that any contract limiting statutory fair use rights should be preempted, these contracts should not be preempted because the purpose of the statutory provision has been served by the formation of a contract.

On the other hand, the fact that two parties have entered into a contract to modify a statutory provision does not always indicate that the market failure giving rise to the statutory provision has been overcome. Some statutory provisions seek to establish the proper allocation of rights in light of the interests of many affected parties. If a couple of those parties agree between themselves that the rule should be different, they affect not only themselves but also many others. A notable example of this occurs in bankruptcy law. A debtor’s contractual promise to a creditor to forgo the right to file for bankruptcy could affect the amount other creditors could receive. As a result, such contracts are unenforceable under the federal Bankruptcy Act.¹⁶⁴

Likewise, in copyright, a journalist’s promise to forgo making fair use of copyrighted material could prevent the dissemination of news to the public. This is an example of the fair use doctrine’s protection of transformative uses. Transformative uses of copyrighted material include scholarship, criticism, comment, news reporting, research, education, and other uses that add “new expression, meaning, or message” to the copyrighted material.¹⁶⁵ The statutory protection of transformative uses is typically justified on the ground that these uses benefit other people—often large segments of society—beyond just the individual user. For example, Justice Blackmun explained this view in *Sony Corp. v. Universal City Studios, Inc.*:

163. *E.g.*, *Harper & Row Publ’rs, Inc. v. Nation Enters.*, 471 U.S. 539, 566 n.9 (1985), *rev’d on other grounds*, 471 U.S. 539 (1985).

164. *See, e.g.*, *In re Cole*, 226 B.R. 647, 651–54 (B.A.P. 9th Cir. 1998) (upholding a lower court decision invalidating a waiver of right to file bankruptcy); *In re Pease*, 195 B.R. 431, 433–34 (Bankr. D. Neb. 1996) (stating that the Bankruptcy Code extinguishes individuals’ rights to contract around its essential provisions because of the potential detriment to other creditors).

165. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579 (1994).

The scholar, like the ordinary user, of course could be left to bargain with each copyright owner for permission to quote from or refer to prior works. But there is a crucial difference between the scholar and the ordinary user. When the ordinary user decides that the owner's price is too high, and forgoes use of the work, only the individual is the loser. When the scholar forgoes the use of a prior work, not only does his own work suffer, but the public is deprived of his contribution to knowledge. *The scholar's work, in other words, produces external benefits from which everyone profits.* In such a case, the fair use doctrine acts as a form of subsidy—albeit at the first author's expense—to permit the second author to make limited use of the first author's work for the public good.¹⁶⁶

Theoretically, all of the people who benefit from the scholar's use of a work could be identified and invited to participate in a collective bargaining process. Practically speaking, however, this will never happen because the transactions costs would be too great.

As a result, even where some of the parties can reach an agreement regarding permission to make a transformative use, it is highly unlikely that the agreement will represent the interests of all of the parties affected by the agreement. Accordingly, such a contract ordinarily should be preempted. Although Judge Easterbrook is right that we should “endow authors with a set of property rights—and let people work out the details for themselves,”¹⁶⁷ we should not let them work out the details *for other people* who cannot be brought to the bargaining table.

In sum, preemption doctrine requires courts to assess each contract preemption case to determine whether the challenged contract interferes with the purpose of copyright law. The waiver approach helps courts to make this determination by directing them to consider, on a case-by-case basis, whether the copyright licensee is waiving rights granted for her benefit or rights granted for the benefit of others. Where the statutory provision grants a right for the protection of individuals, courts may ordinarily treat it as a default provision that individuals may contract around. On the other hand, where the provision creates a right for the protection of the public, individuals ordinarily should not be able to waive it. The right is not theirs to give away, and, if enforced, the waiver could affect the public in a way that

166. 464 U.S. 417, 477–78 (1984) (Blackmun, J., dissenting) (emphasis added).

167. Easterbrook, *Contract and Copyright*, *supra* note 1, at 961.

the Act sought to avoid. In that case, there is at least an ostensible conflict between the contract and the Copyright Act.

The proposed waiver approach to preemption helps reconcile the interests in freedom of contract with the interests in enforcing federal copyright policy by directing courts to determine when a contract provision is truly an obstacle to the purpose of a provision of the Act. Where the contract modifies a statutory right that sets a default rule, the contract probably does not interfere with the purposes of federal copyright law. Where the contract modifies a statutory right intended to benefit numerous parties, the contract presents a potential obstacle to the objectives of copyright law. Even here, however, it will sometimes be possible that enforcing such individual waivers will somehow effectuate statutory purpose in the aggregate. Thus, waiver analysis indicates where there is *prima facie* a conflict between enforcement of a contract and federal copyright law, but the ultimate touchstone for preemption is still whether the contract interferes with the purpose of federal copyright law. The next section will illustrate the proposed approach further by demonstrating how these requirements would have resolved some controversial contract preemption cases.

1. *Case Studies: ProCD Reconstructed and Bowers v. Baystate Reconsidered*

As previously discussed, *ProCD* is wrong in its categorical statement that the Copyright Act does not preempt the enforcement of contracts because contracts are simply not equivalent to copyrights.¹⁶⁸ Contrary to widespread criticism, however, the case was correctly decided on its facts, and there is much in the opinion that is praiseworthy. Indeed, much of Judge Easterbrook's analysis provides excellent guidance to courts on how they should analyze the particular facts and claims of each contract preemption case to determine whether the contract subverts copyright policy.

To restate briefly the facts in *ProCD*, the plaintiff had created an uncopyrightable database of information including telephone numbers and zip codes. He distributed the same database with at least two different contracts. Under one contract, the price was lower but the use was restricted to personal use, while under the other contract, the price was higher but commercial use was permitted. The defendant bought the version limited to personal use, then used it for commercial purposes. The plaintiff sued for breach of contract. The defendant argued that the Copyright Act preempted enforcement of the

168. See *supra* Part III.A.2.

contract because the contract restricted his use of information that the Act says should be in the public domain.¹⁶⁹

Under the proposed waiver approach to contract preemption, it is first important to note that the contract clearly stated the defendant could not use the database for commercial purposes. Thus, it unambiguously required the defendant to waive his right to copy the uncopyrightable data. Second, the contract fettered the defendant's statutory right to copy uncopyrightable facts. The reason the Copyright Act provides that facts are uncopyrightable is to preserve public access to such facts. As the Supreme Court recognized in *Feist*, "[t]hroughout history, copyright law has 'recognize[d] a greater need to disseminate factual works than works of fiction or fantasy.'"¹⁷⁰ Thus, it is clear that the contract presented at least an ostensible conflict with a statutory rule intended to protect the public.

Based on this apparent conflict, many have argued that *ProCD* was wrongly decided because it upsets the "delicate balance" that the Copyright Act establishes. As was previously argued, however, this categorical approach does not allow courts to consider whether a particular contract is truly an obstacle to statutory objectives. Because interference with statutory purpose is the touchstone of preemption, it is not enough for preemption that the contract presents an apparent conflict with the Copyright Act.

Although Judge Easterbrook's decision rests ostensibly on the argument that contracts should not be preempted because they do not create exclusive rights, it is clear that he considered whether the particular claim, or the factual circumstances giving rise to the claim, threatened copyright law.¹⁷¹ He reached two important conclusions that demonstrate the contract claim did not interfere with the Copyright Act's purpose of making facts available to the public.

First, he found that the plaintiff's particular contract claim was an attempt to enforce a price discrimination strategy, which he said ordinarily allows greater access to a product than if such a contractual strategy were preempted: "If ProCD had to recover all of its costs and make a profit by charging a single price—that is, if it could not charge more to commercial users than to the general public—it would have

169. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449–55 (7th Cir. 1996).

170. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 354 (1985) (quoting *Harper & Row Publ'rs, Inc. v. Nation Enters.*, 471 U.S. 539, 563 (1985), *rev'd on other grounds*, 471 U.S. 539 (1985)) (rejecting the "sweat of the brow" doctrine which had extended copyright protection to allow copyrighting of collections of facts to reward industrious collection).

171. See *infra* notes 172–175 and accompanying text.

to raise the price substantially”¹⁷² Thus, “[e]nforcement of the shrinkwrap license may even make information more readily available, by reducing the price ProCD charges to consumer buyers.”¹⁷³

Second, he considered the particular factual circumstances of the claim and found no real threat to copyright policy. He explained that the product was merely a database of basic telephone book information that “[e]veryone remains free to copy and disseminate”¹⁷⁴ Thus, he emphasized that enforcement of the contract limiting use of this product “would not withdraw any information from the public domain.”¹⁷⁵

Unfortunately, too many other courts fail to follow the analytical approach set forth in the *ProCD* decision and instead seem to rely exclusively on its “contracts are different” rationale. Indeed, even where parties have argued that waiver law and statutory purpose should inform the court’s analysis, courts have failed to see the significance of this approach. The best (or worst) example of this is the Federal Circuit case of *Bowers v. Baystate Technologies, Inc.*¹⁷⁶

In *Bowers*, the Federal Circuit held that under applicable First Circuit precedent, the Copyright Act did not preempt a contract prohibiting reverse engineering of computer software.¹⁷⁷ The *Bowers* court acknowledged Federal Circuit precedent holding that reverse engineering is protected as a fair use exception to copyright infringement.¹⁷⁸ Nevertheless, it found that state law precedent allowed contractual waivers of statutory rights in some circumstances.¹⁷⁹ The court did not, however, look at that precedent to determine under what circumstances waivers should be enforced. Instead, it simply said that because waivers are allowed in some circumstances, it could apply the First Circuit’s extra-element test for copyright preemption.¹⁸⁰

Applying a categorical version of the extra-element test and citing *ProCD*, the *Bowers* court found that “the mutual assent and consideration required by a contract claim” constitute extra elements that “render that claim qualitatively different from copyright infringe-

172. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir. 1996).

173. *Id.* at 1455.

174. *Id.*

175. *Id.*

176. 320 F.3d 1317 (Fed. Cir. 2003).

177. *Id.* at 1325.

178. *Id.*

179. *See id.* (citing courts that found contractual waivers of statutory rights permissible).

180. *Id.*; *see also* *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1164–65 (1st Cir. 1994) (adopting the extra-element test for copyright preemption and finding a state trade secret claim not preempted).

ment.”¹⁸¹ Thus, the court concluded that “the First Circuit would find that private parties are free to contractually forego [sic] the limited ability to reverse engineer a software product under the exemptions of the Copyright Act.”¹⁸²

By relying on the simplistic “contracts are different” rationale, *Bowers* failed to consider whether the contractual waiver at issue was, in fact, a threat to copyright policy. Indeed, the court failed in two lines of inquiry, either one of which might have led it to a different conclusion. First, although the court cited *ProCD*, it failed to conduct the kind of preemption analysis that Judge Easterbrook undertook.¹⁸³ That preemption analysis would have required the court to consider whether enforcing this particular contractual claim (a prohibition on reverse engineering) on the particular facts (such as plaintiff’s power to exclude rivals from the market, if that were the case) would have threatened copyright policy.¹⁸⁴

Second, the *Bowers* court failed to consider whether the defendant’s contractual waiver of its statutory right to reverse engineer was enforceable under applicable First Circuit and state law precedent.¹⁸⁵ It treated the cases only superficially, citing them for the vague proposition that “in some circumstances contractual waiver of statutory rights is permissible.”¹⁸⁶ But those cases actually require a court to examine the purpose of the particular statutory right that has been waived.¹⁸⁷ Specifically, they state that “a contractual waiver of statutory rights is permissible when the statute’s purpose is the ‘protection of the property rights of individual parties . . . rather than . . . the protection of the general public.’”¹⁸⁸

Clearly, both preemption and waiver analysis required the *Bowers* court to examine the threat to copyright’s statutory purpose. Specifically, the court should have considered the purpose of the fair use exception for reverse engineering and whether the contract at issue threatened that purpose.

181. *Bowers*, 320 F.3d at 1325.

182. *Id.* at 1325–26.

183. *Id.* at 1325.

184. See *supra* notes 172–175 and accompanying text.

185. See *Bowers*, 320 F.3d at 1325–26 (discussing First Circuit cases on enforceability of contractual waivers of statutory rights).

186. *Id.* at 1325 (quoting *Tompkins v. United Healthcare of New England, Inc.*, 203 F.3d 90, 97 (1st Cir. 2000)) (internal quotation marks omitted).

187. See *Continental Corp. v. Gowdy*, 186 N.E. 244, 249 (Mass. 1933) (“[W]hether the effect of any specific statute can be avoided by contract depends upon the purpose for which the statute was enacted.”).

188. *Canal Elec. Co. v. Westinghouse Elec. Corp.*, 548 N.E.2d 182, 187 (Mass. 1990) (quoting *Continental Corp.*, 186 N.E. at 250).

Bowers acknowledged that under Federal Circuit precedent, “reverse engineering object code to discern the unprotectable ideas in a computer program is a fair use.”¹⁸⁹ *Bowers* explained that the court recognized the exception because “[a] prohibition on all copying whatsoever would stifle the free flow of ideas without serving any legitimate interest of the copyright holder.”¹⁹⁰ Nevertheless, under the “contracts are different” rationale, the *Bowers* court held that the Copyright Act does not preempt contractual agreements to forgo the right.¹⁹¹ Presumably, the court believed that contracts apply only to their parties and not to the world at large, and, therefore, that such contracts do not “stifle the free flow of ideas” in violation of copyright policy.¹⁹²

Under an appropriate preemption analysis, however, the court should have considered whether, given the factual circumstances of the case, the contractual prohibition on reverse engineering threatened to lock up uncopyrightable ideas in violation of the stated copyright policy. While Judge Easterbrook concluded that ProCD’s contractual price discrimination strategy could make uncopyrightable information “more readily available,”¹⁹³ the *Bowers* court did not indicate any way in which the prohibition on reverse engineering would facilitate access to uncopyrightable ideas. Moreover, the *Bowers* court did not consider whether there was any way that the public could gain access to the uncopyrightable idea other than by reverse engineering the plaintiff’s code.¹⁹⁴ This is potentially a much different factual situation than in *ProCD*, where the underlying data came from telephone directories available to anyone.¹⁹⁵

The court should have considered the statutory purpose underlying the reverse engineering exception under the First Circuit’s waiver analysis as well. The First Circuit and state law cases cited by *Bowers* make clear that contractual waivers of statutory rights are permitted

189. *Bowers*, 320 F.3d at 1325 (quoting *Atari Games Corp. v. Nintendo of Am. Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992)) (internal quotation marks omitted).

190. *Id.* Other cases have observed that contractual restraints on reverse engineering are contrary to copyright policy because they deprive the public of valuable innovations. *Cf. Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990) (finding copyright misuse in contract forbidding licensee from developing competing software for a 99-year period because “Lasercomb is attempting to use its copyright in a manner adverse to the public policy embodied in copyright law . . .”). See generally Herbert Hovenkamp, *Restraints on Innovation*, 29 CARDOZO L. REV. 247 (2007).

191. *Bowers*, 320 F.3d at 1323.

192. *Id.* at 1325.

193. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1455 (7th Cir. 1996).

194. *Bowers*, 320 F.3d at 1325.

195. *ProCD*, 86 F.3d at 1455.

only where the statutory purpose is the protection of private property rights rather than the public interest. For instance, in *Canal Electric Co. v. Westinghouse Electric Corp.*, a court within the First Circuit enforced the contractual waiver of a state breach of warranty claim.¹⁹⁶ The court found that the warranty claim arose from the breach of contract and was simply “an alternate theory of recovery under the contract.”¹⁹⁷ The court concluded that “the dispute is a purely commercial one that does not affect the public interest.”¹⁹⁸ The court emphasized, however, that “[a] statutory right may not be disclaimed if the waiver could ‘do violence to the public policy underlying the legislative enactment.’”¹⁹⁹ Thus, the court explained that there are claims that even a business plaintiff could not waive, such as a claim sounding in antitrust.²⁰⁰

The *Bowers* court and other courts have recognized that the purpose of the fair use exception for reverse engineering is to protect the public interest in “the free flow of ideas,” not to protect private property rights.²⁰¹ As such, the court erred in enforcing the contract without making any findings to show how such a contract could be consistent with the statutory purpose.

IV. IMPLICATIONS OF THE PROPOSED APPROACH

As in all preemption cases, courts addressing preemption of a contract that modifies rights under the Copyright Act must determine whether the contract interferes with the purpose of the Act. The proposed waiver approach to contract preemption helps courts to determine which contracts interfere with copyright’s purpose and which ones do not. The following analysis demonstrates how courts should apply the proposed approach to preemption and summarizes the implications of the approach for a variety of cases.

A. *Analysis of Shrinkwrap Licenses versus Bargained-for Contracts*

Under the proposed approach to preemption, it should not matter whether the challenged contract is a bargained-for contract, a shrinkwrap license, or other form contract. Copyright scholars have argued that shrinkwrap licenses and other form contracts threaten to upset copyright law’s “delicate balance” even more than bargained-for

196. 548 N.E.2d 182, 188 (Mass. 1990).

197. *Id.*

198. *Id.*

199. *Id.* at 187 (quoting *Spence v. Reeder*, 416 N.E.2d 914, 924 (1981)).

200. *Id.* at 187–88.

201. *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1325 (Fed. Cir. 2003).

contracts, and therefore should be preempted more often.²⁰² This argument is based on two concerns. First, because shrinkwrap licenses do not require traditional forms of assent, they are less likely to embody an actual meeting of the minds of the contracting parties.²⁰³ Second, because these licenses are used on mass-marketed products, they threaten to displace copyright legislation more than other types of contracts do.²⁰⁴

These concerns arise out of the attempt to weigh freedom to contract against federal copyright policy at the wholesale level. Judge Easterbrook favors enforcing contracts and suggests that preempting form contracts would require a return to business practices of the “horse-and-buggy” days.²⁰⁵ On the other hand, commentators like Professor Lemley and David Nimmer favor enforcing federal copyright policy, especially as against form contracts where evidence of mutual assent is weaker than in bargained-for contracts.²⁰⁶

So long as there is sufficient evidence of assent to determine that a contract was formed as an initial matter, however, the fact that it is a shrinkwrap license or form contract should not be resurrected in the contract preemption analysis. It is possible that some contracts could manifest so little evidence of mutual assent that their enforcement by the state is tantamount to the enactment of mandatory copyright legislation. In those cases, courts should hold that a valid contract was never formed, thus obviating the need to consider the contract preemption issue. This result is unlikely in the overwhelming majority of cases, however, because current U.C.C. law is very permissive in the ways that contracts may be formed.²⁰⁷

Under the proposed approach, once a court determines that the evidence of assent is sufficient to find formation of a contract, the fact that the contract is a form contract should play no role in the contract preemption analysis. This approach does not weigh the value of contract enforcement against the value of federal copyright policy. It recognizes that both values are important and shows how they can be

202. See generally *supra* note 24 (exploring the arguments against enforcing shrinkwrap licenses).

203. See Lemley, *Intellectual Property*, *supra* note 1, at 1287–89 (describing the problematic results of “blanket” and “notice” assent).

204. See Dennis S. Karjala, *Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. DAYTON L. REV. 511, 536 (1997).

205. See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1452 (7th Cir. 1996).

206. See Lemley, *Intellectual Property*, *supra* note 1, at 1291–92 (favoring federal copyright law over state contract law); Nimmer et al., *supra* note 1, at 76 (same).

207. See U.C.C. §§ 2-201 to -210, available at <http://www.law.cornell.edu/ucc/2/> (last visited Apr. 4, 2008) (detailing the formal requirements for contract formation).

reconciled. Thus, it considers contract preemption on a case-by-case basis and examines the extent to which contractual provisions conflict with federal copyright law.

In determining whether such a conflict exists, courts should draw from the law of contractual waivers of statutory rights. Accordingly, they should consider whether the copyright rules circumvented by the contract affect only the individual contracting parties or also third parties who are not parties to the contract.²⁰⁸ Assuming that there is sufficient evidence of assent to the contract, and if the contract affects only the individual contracting parties, then the waiver of rights will ordinarily be permissible. It should make no difference that the contract is a form contract or how many such contracts are distributed. On the other hand, if the contract affects third parties who are not parties to the contract, then the waiver of rights will not ordinarily be permissible. In this case, it still should make no difference whether the contract is a form contract. The contracting parties have no right to affect the rights of others, thus, it does not matter how much they have bargained over and agreed to a term that would affect third parties.

B. Analysis of Particular Contract Provisions

1. Determining Whether the Contract Clearly Waives Statutory Rights Granted by the Copyright Act

The proposed approach to preemption first requires courts to construe the alleged contractual waiver. If the waiver is unclear or ambiguous, courts should construe it not to waive statutory rights, because both contract law and federal copyright policy favor clearly drafted contractual waivers. If the contractual waiver is clear, courts must determine whether the contract waives a statutory right granted to the licensee under the Copyright Act. If it does not, then the contract is not preempted because it does not conflict with the Act. For instance, in *National Car Rental System, Inc. v. Computer Associates International, Inc.*, the owner of the copyright in a computer program licensed National to use the program on the condition that National would not use it to process information for third parties.²⁰⁹ The court held that because the Copyright Act does not give licensees the right to use copyrighted material for this purpose, the third-party-use re-

208. See *infra* Part III.B.

209. 991 F.2d 426, 427-28 (8th Cir. 1993).

striction constituted an “extra element” in the contract claim that defeated preemption.²¹⁰

Under the proposed approach, it is important that there is no statutory copyright provision protecting third-party use, but not merely because it provides an extra element beyond what is required to show copyright infringement. The extra-element test is not always accurate for determining which claims conflict with federal copyright law.²¹¹ But the absence of a statutory provision on point in *National Car Rental* did tend to show that there was no conflict between the contract and the Act. The Copyright Act does not contain a provision allowing use of a copyrighted work to process third-party information. Moreover, the Act’s fair use doctrine typically does not protect commercial uses that harm a copyright owner’s sales.²¹² Because this is precisely the harm that National’s contract was intended to prevent, there was no conflict. Thus, under the proposed approach, the court was correct in deciding that the contract should not be preempted.²¹³

2. *Determining Whether the Contract Waives Individual Rights or Public Rights*

Assuming that the contract unambiguously waives a statutory right granted by the Copyright Act, the second question is whether the statutory right affects only the individual parties to the contract or other third parties as well. If the licensee contractually waives a statutory right intended as a default rule for the benefit of individual parties, then the licensee’s waiver of that right ordinarily should not be preempted. On the other hand, if the licensee contractually waives a statutory right intended for the benefit of third parties or the general public, the court should preempt the contract unless there is reason to believe that enforcing the contractual waiver will not, in the aggregate, impair the purpose of the copyright provision that the contract modifies.

To be sure, it will not always be easy to distinguish between individual rights and public rights. Indeed, there might be difficult cases in which the text and history of particular provisions makes this distinction impossible. Nevertheless, against the backdrop of categorical

210. *Id.* at 433.

211. *See supra* Part III.A.3.

212. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 449 (1984) (finding commercial or profit-making use of a copied product presumptively unfair). *But cf. Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 584–85 (1994) (stating that the commercial nature of a product’s use is not conclusive but rather only one factor to be considered in a fair use analysis).

213. *Nat’l Car Rental*, 991 F.2d at 433.

approaches that treat contract preemption is an all-or-nothing proposition, the proposed approach provides a useful analytical framework for determining whether a contract claim ought to be preempted in most cases.

a. Waivers of Rights Protecting Individuals

Sometimes a contract provision circumvents a statutory provision that seems to affect only the individual parties to the contract. For instance, Section 117 of the Copyright Act provides that the legitimate owner of a copyrighted computer program may make a “copy or adaptation of that computer program” so long as (1) the “new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner,” or (2) the “new copy or adaptation is for archival purposes only”²¹⁴

This provision does not seem to create any material benefits for third parties who would not be parties to the contract. It does not purport to protect copying for the purpose of reverse engineering or disassembling object code to ascertain underlying ideas.²¹⁵ Rather, it seems to be intended for the benefit of the individual owner. As the court in *Sega Enterprises Ltd. v. Accolade, Inc.* noted, “Section 117 was enacted on the recommendation of CONTU,” or the National Commission on New Technological Uses of Copyrighted Works.²¹⁶ Congress established CONTU to study and make recommendations on computers and copyright. *Sega* quoted from CONTU’s Report in explaining the purpose of Section 117:

[b]ecause the placement of any copyrighted work into a computer is the preparation of a copy [as the program is loaded into the computer’s memory], the law should provide that persons in rightful possession of copies of programs be able to use them freely without fear of exposure to copyright liability.²¹⁷

214. 17 U.S.C. § 117(a) (2000).

215. *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1520 (9th Cir. 1992); see O’Rourke, *supra* note 1, at 538 & nn.248–49 (arguing that the *Sega* court was correct in rejecting the view that Section 117 creates a right to decompile computer code); see also Charles R. McManis, *Intellectual Property Protection and Reverse Engineering of Computer Programs in the United States and the European Community*, 8 HIGH TECH. L.J. 25, 83–85 (1993) (criticizing an earlier case holding that Section 117 created a right to decompile).

216. *Sega*, 977 F.2d at 1520.

217. *Id.* (quoting NAT’L COMM’N ON NEW TECHNOLOGICAL USES OF COPYRIGHTED WORKS, FINAL REPORT 1, 13 (1979) (internal quotation marks omitted)).

Thus, Section 117 merely provides a default rule specifying that the purchase of a copy of the computer program entitles the purchaser to make a copy to facilitate use of the program or to make a backup copy. If the buyer agrees contractually to waive that right, there is no apparent reason why the Copyright Act should preempt enforcement of that agreement.

Another example of a doctrine arguably created for the benefit of individual users is the first-sale doctrine. Section 109(a) and (c) of the Act provide that, notwithstanding the exclusive rights of distribution and public display granted to copyright owners in Section 106 (but subject to some important exceptions in Section 109(c)), an authorized purchaser of a copyrighted work may resell or otherwise dispose of the work, or publicly display the work as she wishes.²¹⁸

The purpose of this provision is to establish a default rule specifying that the right to display and the right to distribute the physical chattel embodying the copyrighted work are included in the property rights purchased in the work.²¹⁹ Because the first-sale doctrine ordinarily benefits only the purchaser, the purchaser ordinarily should be permitted to waive its protection.²²⁰ Indeed, the legislative history of Section 109 reinforces the proposed approach on this issue. The House Committee Notes accompanying Section 109 make it clear that Congress believed parties should be permitted to contract around the first-sale doctrine.²²¹

218. 17 U.S.C. § 109(a); *id.* § 109(c).

219. *See* *Quality King Distrib., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998) (detailing that once a copyright owner sells a copyrighted item, his statutory right to control its distribution is exhausted).

220. It is possible that the first-sale doctrine might protect third parties in some (though not most) cases. For instance, a copyright owner might use a contractual limitation on resale to prevent his own used goods from competing with his new goods. Such a contractual limitation could foreclose competition only where the copyright owner has market power and the good is durable both in that it may be used multiple times and in that it does not become obsolete. Because the proposed approach emphasizes case-by-case analysis of contract preemption cases, courts are free to invalidate such a contract where it does, in fact, affect copyright policy. It is important to note, however, that where these requirements are met, the contract might also constitute copyright misuse.

221. *See* H.R. REP. NO. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693. This legislative history shows that although Congress intended to allow parties to contract around the first-sale doctrine, it would require that such waivers be enforced through breach of contract actions, not through copyright infringement actions. Similarly, at this writing, the Supreme Court is considering the ways in which a patent owner may circumvent patent law's first-sale (exhaustion) doctrine in *Quanta Computer, Inc. v. LG Electronics, Inc.* The Government's Brief argues that, in light of Supreme Court precedent, parties should be able to circumvent the first-sale doctrine only by contractual agreement, and that such agreements should be enforceable only as breach of contract claims. Brief for

The fair use doctrine provides a third example of a copyright provision that, in some circumstances, protects individual interests. The fair use doctrine permits a variety of uses of copyrighted material for a variety of reasons. Where a contract provision requires the licensee to give up a right to use a copyrighted work in a way that has been deemed a fair use under the Act, the court must determine the statutory purpose in protecting that use under the fair use doctrine. In many cases, the fair use defense protects uses of copyrighted material because the use benefits third parties or the public, not merely the individual user. In some cases, however, fair use protects individual users of copyrighted material. Where an individual user makes personal use of a small amount of material, transactions costs of bargaining for payment are often high relative to the amount that would be paid for the use. Thus, fair use excuses non-payment benefiting the individual user. In this situation, if the individual parties are able to overcome transactions costs and reach an agreement regarding terms of the use, then there is no reason that the Copyright Act should preempt that agreement.

b. Waivers of Rights Protecting Third Parties or the Public

There are essentially two types of contractual provisions that might alter statutory rights intended to protect third parties who are not parties to contract. The first is a provision in which the copyright owner attempts to sequester information that the Copyright Act would leave in the public domain. The second includes field-of-use restrictions that prohibit the licensee from using copyrighted material in ways that the Copyright Act would allow.

Rights to access public domain material. Where a contract attempts to prevent the licensee's access to content that is clearly not copyrighted or copyrightable,²²² the contract will be preempted unless there is reason to believe that enforcing the individual contractual

the United States as Amicus Curiae Supporting Petitioners 8–9, 24, *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 28 (2007) (No. 06-937).

222. Thus, as an initial matter, courts must determine whether the underlying content is copyrighted. If the content is clearly copyrighted, the contract does not conflict with the purpose of the Copyright Act, regardless of whether courts think the contract terms require an "extra element" to prove breach. Rather, such a contract simply provide the means by which copyright owners can exercise their exclusive rights. Accordingly, these contracts should not be preempted. Likewise, if the content is not clearly copyrighted or copyrightable, but might be, the contract probably should not be preempted. In that case, the licensee apparently agrees to the terms of the contract in order to avoid the uncertainty of the litigation process. Because the right to avoid uncertainty is not a statutory right granted by the Copyright Act under the first part of the waiver analysis, the contract should not be preempted.

waiver will not, in the aggregate, impair the purpose of the copyright provision that the contract modifies. In determining whether enforcing the contract will impair copyright's purpose, it is important to observe the different mechanisms licensors might employ to prevent the licensee from using the material covered by the contract. The contract might include a flat prohibition on copying or other use. Alternatively, the contract might use a price discrimination scheme under which copying or other use is permitted at one price but prohibited at another. Finally, the contract might require payment for the copying or other use.

Where a contractual provision waives a licensee's right of access to uncopyrighted material, there is at least an ostensible conflict between the contract and the Copyright Act. The court then must determine whether enforcement of that waiver actually conflicts with the Copyright Act's purpose of keeping this content in the public domain. Thus, enforcement of the contract will be preempted if (1) the type of contractual provision at issue tends to limit access to *this source* of the content; and (2) the facts show that the content is not readily available elsewhere.

In *ProCD*, neither of these requirements for preemption was met.²²³ First, price discrimination strategies of the type used in *ProCD* tend to increase access. Second, content is readily available elsewhere in cases involving databases of telephone directories like the one in *ProCD*.²²⁴

In other cases, both of these requirements are clearly met. The Seventh Circuit case, *Assessment Technologies of WI, LLC v. WIREdata, Inc.*,²²⁵ provides a good example. There, Assessment Technologies (AT) created and copyrighted a computer program used by municipal tax assessors to compile factual property data such as the number of rooms in a home and age of the property.²²⁶ WIREdata asked the municipality for the factual data, but the municipality refused on the ground that turning over the data might breach its license agreement with AT.²²⁷ AT then sued WIREdata for copyright infringement (presumably for contributory infringement for inducing the municipality to infringe the copyright).²²⁸ AT argued that extracting the uncopyrightable data would require copying either the copyrighted com-

223. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).

224. *Id.* at 1455.

225. 350 F.3d 640 (7th Cir. 2003).

226. *Id.* at 642.

227. *Id.*

228. *Id.*

puter program or the copyrighted compilation of data as structured by the program.²²⁹

Writing for the court, Judge Posner expressed doubt that turning over the uncopyrightable data would require copying any of AT's copyrighted material.²³⁰ He concluded, however, that "AT would lose this copyright case even if the raw data . . . could not be extracted without making a copy of the program," because such "intermediate copying" constitutes fair use.²³¹ In reaching this decision, he emphasized that much of the data would not be available elsewhere. The existence of AT's program had caused many assessors to stop recording the data by hand. As a result, for many properties the data could not be obtained except by extracting it from AT's copyrighted compilation.²³²

Furthermore, Judge Posner asserted that if AT's license agreement were read to prevent the municipality from turning over public domain data, AT might have committed copyright misuse. He explained that "[t]o try by contract or otherwise to prevent the municipalities from revealing *their own* data, especially when, as we have seen, the complete data are unavailable anywhere else, might constitute copyright misuse."²³³ Thus, the court suggests that it might be copyright misuse to use a contract to obtain rights beyond the rights that copyright law provides, even where there would be no antitrust violation.²³⁴

The court did not address the issue of whether such a contract would be preempted if AT tried to enforce it. AT did not sue WIREdata for breach of contract, because WIREdata was not a party to the contract between AT and the municipality. Thus, the court simply noted that "it is irrelevant that *ProCD* . . . holds that a copyright owner can by contract limit copying beyond the right that a copyright confers."²³⁵

If AT did attempt to enforce the contract against the municipality, however, the contract should be preempted, notwithstanding *ProCD*. Here, unlike in *ProCD*, enforcement of the contract would impair the policy of keeping uncopyrightable data in the public domain. First, AT's outright prohibition on copying uncopyrightable data

229. *Id.* at 643–45.

230. *See id.* at 643–44 (describing two easy methods of extracting raw data, which is in the public domain and therefore uncopyrightable, from the Market Drive program).

231. *Id.* at 644–45.

232. *Id.* at 645.

233. *Id.* at 646–47.

234. *Id.* at 647.

235. *Id.* at 646.

would obviously decrease access to the particular source of information at issue in the case. Second, the data are clearly unavailable from other sources because the plaintiff controls the only source of the information.

Thus, contracts like the one in *ProCD* should not be preempted, while contracts like the one in *Assessment Technologies* should be. Other cases are less clear. For instance, in *Bowers*, the flat prohibition on reverse engineering to access uncopyrightable ideas underlying the program seems, on its face, to decrease access to public domain ideas.²³⁶ It is unknown whether the ideas underlying the computer code in *Bowers* were readily available elsewhere, however, because the court made no findings on the issue.

Because the question here is whether enforcement of this type of contract will impair the policy behind the statutory provision, there might be a sliding scale between these two elements. In *ProCD*, because the factual information was readily available to other potential database compilers, the fact that the price discrimination strategy either increased access or decreased access very little meant that the contract was not preempted.²³⁷ By contrast, the fact that the *Assessment Technologies* data were not available from anywhere else, plus the fact that the contract prohibited all sharing of that information, means that the contract ought to be preempted.²³⁸ Although Judge Posner suggested that AT's conduct might constitute misuse,²³⁹ the preemption remedy would still be important as a defense to a breach of contract action. *Bowers* would be a harder case. The contract was an outright prohibition on reverse engineering, which favors preemption.²⁴⁰ However, because the court made no findings on the issue, it is unclear whether the underlying ideas that would have been discovered through reverse engineering could be obtained readily elsewhere. If the plaintiff in *Bowers* had the power to exclude others from the program's underlying ideas, that finding would be sufficient, though probably not necessary, to tip the scales in favor of preemption.

Rights to use copyrighted material. A somewhat different type of contractual provision, a field-of-use restriction, limits the licensee's ability to use copyrighted material in ways that the Copyright Act would permit. For instance, the fair use defense protects certain uses of copy-

236. *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1325–26 (Fed. Cir. 2003).

237. *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1455 (7th Cir. 1996).

238. *Assessment Techs.*, 350 F.3d at 646–47.

239. *Id.*

240. *Bowers*, 320 F.3d at 1326.

righted material because the uses benefit others beyond the individual user. These uses, which have been called “transformative” or “productive” uses, include uses for comment or criticism, news reporting, research, and educational purposes. The right to engage in such uses is protected not solely for the benefit of the individual user, but for the benefit of the general public.²⁴¹

Thus, like contractual waivers of the right to use public domain material, contractual waivers of the fair use right to engage in transformative uses of copyrighted material are in apparent conflict with federal copyright law. Accordingly, the court should preempt enforcement of such a contractual provision unless it determines that enforcing individual waivers will somehow serve copyright policy in the aggregate.

It is unlikely, however, that there will be many situations in which enforcing waivers of this right will serve copyright policy. For instance, while a price discrimination strategy might actually increase access to public domain material, it is unlikely that such a strategy will enhance transformative uses of copyrighted material. If a copyright owner can prohibit parodies or reviews of her work at one price and permit them at another price, she can effectively control criticism of her work. Yet, encouraging such criticism and comment is at the heart of the fair use doctrine’s protection of transformative uses. And, clearly, if a price discrimination strategy does not promote transformative uses, neither do outright prohibitions or requirements to pay for the use.

V. CONCLUSION

For years, courts and scholars have been debating whether the Copyright Act should preempt breach of contract claims. Some courts have taken the categorical position that because contracts affect only their parties, they do not create exclusive rights that supplant copyright infringement actions. Moreover, they emphasize the importance of allowing parties to decide for themselves how best to allocate copyrights. On the other hand, copyright scholars have argued, almost as categorically, that federal copyright policy should preempt contracts whose terms differ from those of the Copyright Act. Yet, these scholars have also acknowledged that copyright must allow room for freedom to contract, and that contract claims are different from copyright infringement claims in important ways. Neither of these

241. *See supra* note 162 and accompanying text.

categorical approaches to contract preemption allows courts to consider how some contracts affect copyright policy while others do not.

Because the touchstone of preemption doctrine is statutory purpose, it requires courts to consider each claim individually to determine whether it interferes with that purpose. The existing approaches to copyright preemption of contracts do not address, on a case-by-case basis, whether individual contracts impair copyright's statutory purpose. Thus, copyright law has failed to develop a coherent account of contract preemption that harmonizes the individual interest in freedom of contract and the societal interest in federal copyright policy.

This Article argues that existing approaches to copyright preemption of contracts fail, in part, because preemption doctrine is not well-suited to contract claims. Technically, contracts affecting rights under the Copyright Act present a preemption issue because private contracts depend on state law for enforcement. But unlike in most preemption cases, the issue in contract preemption cases is not really whether a state regulatory scheme is likely to supplant a federal scheme. Rather, the issue is whether individuals should be able to contract away rights granted by the federal Copyright Act.

Accordingly, courts should look to the law governing contractual waivers of statutory rights for guidance in determining when parties should be permitted to contract around the Copyright Act. Waiver law holds that contractual waivers of statutory rights are permissible where (1) the waiver is clear and unmistakable, and (2) the licensee waives a statutory right that is intended for the protection of individuals who are parties to the contract rather than third parties or the general public who are not parties to the contract.

These waiver requirements help to reconcile the interests in freedom of contract with the interests in enforcing federal copyright policy. The first requirement keeps federal copyright law in place until a party clearly intends to waive one of her rights. The second requirement guides courts in determining when a contract provision is truly an obstacle to the purpose of a provision of the Copyright Act. Where the contract modifies a statutory right that merely sets a default rule for the benefit of individual parties, those parties should be free to decide that a different rule serves them better. Accordingly, such a contractual waiver is ordinarily not an obstacle to the purpose of copyright law. On the other hand, where the contract modifies a statutory right intended to benefit numerous parties, the contract potentially conflicts with the purpose of copyright law. Even here, however, it will sometimes be possible that enforcing such individual waivers will

somehow effectuate statutory purpose in the aggregate. Thus, waiver analysis indicates where there is *prima facie* a conflict between enforcement of a contract and federal copyright law, but holds that the ultimate touchstone is still whether the contract interferes with the purpose of federal copyright law.

The proposed approach has some important implications. First, it rejects a good deal of scholarship arguing that shrinkwrap licenses and other form contracts should be preempted more often than bargained-for contracts. Once a court determines that the evidence of assent is sufficient to find formation of a contract, the fact that the contract is a form contract should play no role in the contract preemption analysis. Under this approach, if the contract affects only the individual contracting parties, then a waiver of rights is permissible. It makes no difference that the contract is a form contract or how many such contracts are distributed. On the other hand, if the contract affects third parties who are not parties to the contract, then a waiver of rights is not permissible. In this case, it still makes no difference whether the contract is a form contract. The contracting parties have no right to affect the rights of others, so it does not matter how much they have bargained over and agreed to a term that would affect third parties.

Second, the proposed approach provides a framework to help courts determine whether individual contracts interfere with copyright policy. This approach directs courts to separate contractual waivers of individual statutory rights from waivers of third-party statutory rights, and concludes that waivers of individual rights should not be preempted. Thus, waivers of rights to make back-up copies of computer programs or first-sale rights to resell a copy of a copyrighted work ordinarily should be enforceable. With regard to contractual waivers of rights benefiting third-parties, the issue is more complex. These rights include the right to use public domain material as well as the right to make transformative fair uses of copyrighted materials. The waiver approach shows that these contracts are in apparent conflict with the purpose of the Copyright Act, but requires courts to consider whether there is any reason to believe that enforcement of individual waivers could be consistent with statutory purpose on the whole. For instance, because some price discrimination strategies requiring waiver of the right to use public domain materials at a given price might actually increase overall access to those materials, they should not be preempted.

In conclusion, the proposed waiver approach helps courts to determine when individual contracts interfere with federal copyright

policy. By keeping statutory purpose at the forefront of preemption analysis, it provides a coherent approach to copyright preemption of contracts that balances the interests in freedom of contract with the interests in enforcing federal copyright policy.