INTELLECTUAL PROPERTY IN THE NEW MILLENNIUM

Essays in Honour of William R. Cornish

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Paternalism and autonomy in copyright contracts

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Most, if not all, of the great controversies in Anglo-American copyright situate copyright owners against copyright users – what William Cornish in his 2002 Horace S. Manges Lecture at Columbia Law School called a 'two-dimensional' approach 'with its concentration upon the exclusive right to prevent users from engaging in infringing activities'.[1] It must have been a surprise for many in Cornish's American audience to discover that this Cambridge luminary had crossed the Atlantic not to opine on such current battles as those between copyright owners and Internet users, but rather to weigh in on the 'tripartite linkages implanted in European laws on author's rights', specifically, French and German measures to protect authors from unfair exploitation by the publishers and other intermediaries who bring their works to market.[2]

In fact, Cornish could not have selected a more timely topic, nor a better venue in which to explore it. It is the creative author who stimulates copyright's moral pulse, and the economic relationship between authors and publishers promises to be a dominating issue for copyright in the present century – even more so in the common law world than in the civil law world where doctrine already closely regulates this fraught relationship.

The focus of Professor Cornish's Manges Lecture was the mandatory remuneration provisions of the 1957 French Authors Rights Law[3] and the 2002 amendments to the German Copyright Act[4] providing, respectively,

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[1] W. Cornish, "The Author as Risk-Sharer", 26 Colum. J. L. & Art. 1 (2002).

[2] *Ibid.*

[3] The French Intellectual Property Code, Art. L. 131-4, prohibits lump sum payments in all but a limited number of situations and requires instead that the author participate proportionately, through royalties.

[4] The German Copyright Act, Art. 32(1), provides that if the remuneration contractually agreed upon between author and publisher is not equitable, the author may obtain equitable remuneration through judicial proceedings. See generally, K. Gutsche, 'New Copyright

for proportional and minimum remuneration to authors (and, in the case of the German legislation, performers). The provisions have no direct counterparts in common law tradition. Nonetheless, other aspects of common law legislation and case law reveal similarly paternalistic motives and aim to serve comparable economic ends. The aim of this essay is to complement Cornish's reflections on civil law doctrines protecting authors with some details on the approach that one common law jurisdiction – the United States of America – takes to the same issue.

US law treats authors more paternalistically in their copyright contract dealings than the nation's vaunted traditions of contractual autonomy would predict. More than 20 years ago, Barbara Ringer, the former US Register of Copyrights, observed that '[t]here is only so much that a copyright statute can do to safeguard the property rights of authors against unintentional, improvident, unfair and unremunerative transfers; but, given the special pressures and the weight of a long tradition favouring "freedom of contract", the 1976 Act did what it could'.[5] Ringer listed the 1976 Copyright Act's accomplishments:

> '1. It narrowed the scope of 'works made for hire'.
> 2. It safeguarded the rights of authors of contributions to collective works.
> 3. It made copyright divisible, assuring that authors retain any rights they do not transfer.
> 4. It prohibited involuntary transfers of the rights of individual authors.
> 5. It reversed the common law presumption that, when an author or artist transfers a prototype copy (a painting or manuscript, for example), the copyright is transferred also.
> 6. It established a system for terminating unremunerative transfers after a period of years.
> 7. It established various requirements with respect to the execution and recordation of transfers and the registration of copyright claims. Taken together, these provisions rule out oral transfers, require the authors' signature for any rights they transfer and, in one way or another, require that anyone claiming copyright ownership must be able to trace their chain of title back to the author.'[6]

Contract Legislation in Germany: Rules on Equitable Remuneration Provide "Just Rewards" to Authors and Performers' (2003) 25 EIPR 366; W. Nordemann, 'A Revolution of Copyright in Germany' (2002) 49 J. Copyright Soc'y U.S.A. 1041.

[5] B. Ringer, 'United States of America', in S. Stewart (ed.), *International Copyright and Neighbouring Rights* (2nd ed., Butterworths, 1989), pp. 480, 501.

[6] *Ibid.*

Of these changes, the 1976 Act's provision for termination of transfers – unremunerative or not – is by far the most dramatic. Section 203 of the 1976 Copyright Act provides that, in the case of grants of copyright interests made on or after 1 January 1978, authors and their statutory successors enjoy the right to terminate the grant at any time during a five year period that begins to run thirty-five years from the grant's execution.[7] The right, which is non-waivable, was intended to serve the same general object as the copyright renewal provisions of earlier acts (provisions that were prospectively eliminated by the 1976 Act): 'a provision of this sort is needed because of the unequal bargaining position of authors resulting in part from the impossibility of determining a work's value until it has been exploited.'[8] The termination of transfer provisions effectively approximate the goal, if not the precise method, of the French and German royalty provisions by giving author and publisher the opportunity to renegotiate the author's compensation for a successful work after 35 years.

Notably, the 1976 Act exempts works for hire from the operation of the termination of transfer provisions, and these works occupy a far broader domain than might be suggested by Barbara Ringer's observation that the 1976 Act 'narrowed the scope of "works made for hire".' Ringer's observation applies only to the first of two alternative formulas that the Act provides for works for hire. The second formula is the more ambitious, sweeping nine economically important categories of independently created works into its embrace, so long as the parties have agreed in writing that the work shall be considered a work for hire:

> 'a work specifically ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in

[7] In the case of grants of renewal term interests executed before 1 January 1978, s. 304(c) gives authors and their statutory successors the right to terminate the grant at any time during a five-year period beginning on 1 January 1978, or 56 years after the date statutory copyright was originally secured, whichever is later. See generally, P. Goldstein, *Copyright* (Aspen Publishers, 2003) paras. 4.10.5–4.11.

[8] H. R. No. 1476, 94th Cong., 2d Sess. 24.

> the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.'[9]

The work for hire provision, particularly as expanded by this second clause, effectively negates most if not all of Ringer's 'pro-author' changes in circumstances where the author lacks the bargaining power or the will to work as a freelancer. In addition to circumventing the termination of transfer provisions, the work for hire rubric can obliterate the rights of contributors to collective works because it vests rights initially in the author's employer; it reserves no rights to the actual author because it vests all in the employer; and it eliminates any pro-author consequence from the execution and recordation safeguards because title in the case of a work made for hire will vest initially in the employer in any event.

Authors in the United States may fare better under judicial construction of copyright contracts than under legislation, such as the termination of transfer provisions, that intrudes more directly into the contracting process. Some, but not all, state and federal courts construing copyright contracts will place a thumb on the scale in favour of authors by applying a presumption that interests not expressly conveyed are impliedly reserved to the author.[10] Courts resolve contract ambiguities against the party responsible for drafting the contract, ostensibly because the drafter was best placed to express the parties' shared intentions,[11] or because, in the typical copyright contract negotiation, the drafting party will also be the more experienced party and so should bear the consequences of any drafting failure.[12] Because, in the great majority of cases, a presumption against the drafter – the publisher or other commercial enterprise that came to the bargaining table with a form agreement in hand – will effectively be a presumption in favour of the author, these decisions are comparable to those in which courts apply a more explicit pro-author bias.

[9] §101.

[10] See, e.g., *Warner Bros. Pictures v. Columbia Broadcasting Sys.*, 216 F.2d 945 (9th Cir. 1954).

[11] *Restatement (Second) of Contracts*, §206 (1979) ('In choosing among the reasonable meanings of a promise or agreement or a term thereof, that meaning is generally preferred which operates against the party who supplies the words or from whom a writing otherwise proceeds').

[12] See, e.g., *Rey v. Lafferty*, 990 F.2d 1379, 1391 (1st Cir. 1993); *Apple Computer, Inc. v. Microsoft Corp.*, 709 F.Supp. 925, 929 (N.D. Cal. 1989).

State courts, most notably in New York, will sometimes extend a paternalistic hand by limiting the publisher's freedom to reject, for any reason or for no reason at all, an author's delivery of the work under contract. Book publishing agreements rarely if ever expressly obligate the publisher to accept a delivered manuscript. While early decisions gave the publisher a broad, almost unlimited, discretion to decide whether the submitted work's form, style and content were satisfactory,[13] later courts, evidently concerned that such broad publisher discretion could render the contract illusory, implied an obligation of good faith into the publisher's decision whether to accept delivery.[14] Beginning in the 1980s, courts in the Southern District of New York – the venue of the great bulk of these contract disputes – further narrowed the publisher's discretion by tying good faith to an objective standard and shifting to the publisher at least part of the burden of proving it. In one case, the court ruled that, having induced the author 'to write the first half of the novel in reliance on its approval of the outline, and having induced her to complete the novel in reliance on its enthusiastic reception of and payment for the first half, the publisher owed the author 'something more than simply an honest belief that the manuscript was unsatisfactory as written. It owed her, at the very least, a detailed explication of the problems it saw in the manuscript, and an opportunity to revise it along the lines its editors suggested.'[15]

Courts divide on whether a publisher can reject a work because the market anticipated for the work failed to materialize. At least one court has ruled as a matter of law that a publisher may weigh financial considerations in deciding whether to accept a work.[16] But another court, applying California law to the contract terms before it, ruled against a publisher's argument that it could reject an author's manuscript for any good faith reason, whether or not related to the quality of the work.[17]

[13] See, e.g., *Walker v. Edward Thompson Co.*, 37 A.D. 536, 56 N.Y.S. 326 (1899).

[14] See, e.g., *Demaris v. G.P. Putnam's Sons*, 379 F.Supp. 294 (C.D. Cal. 1973) (publisher entitled to reject manuscript on life of Howard Hughes where it obtained lawyer's opinion that publication would expose it to lawsuits for copyright infringement and invasion of privacy); *Goodyear Publishing Co. v. Mundell*, 75 A.D.2d 556, 427 N.Y.S.2d 242 (1980).

[15] *Dell Publishing Co. v. Whedon*, 577 F.Supp. 1459, 1462–1463 (S.D.N.Y. 1984). See also *Harcourt Brace Javanovich, Inc. v. Goldwater*, 532 F. Supp. 619 (S.D.N.Y. 1982) (ruling that, in rejecting the manuscript of the author's political memoir, the publisher had acted improperly because it failed to provide the author with editorial assistance that might have corrected the claimed defects in the manuscript). But see *Doubleday & Co. v. Curtis*, 763 F.2d 495 (2d Cir.), *cert. dismissed*, 474 U.S. 912 (1985).

[16] *Random House, Inc. v. Gold*, 464 F. Supp. 1306 (S.D.N.Y.), *aff'd*, 607 F.2d 998 (2d Cir. 1979).

[17] *Chodos v. West Publishing Co.*, 292 F.3d 992 (9th Cir. 2002). On the expanding duties of grantees under copyright contracts, generally, see P. Goldstein, supra n. 7, para. 4.6.

State, not federal, law is the main repository for contract doctrine in the US federal system. Nonetheless, federal courts, particularly in the Ninth Circuit which encompasses California among other states, have evolved a federal common law of copyright contracts. In one decision, *S.O.S., Inc. v. Payday, Inc.*,[18] the Ninth Circuit Court of Appeals substituted this federal common law for an otherwise applicable California rule that contracts should be construed against the drafter. (This was a comparatively unusual case in which the copyright owner had drafted the contract, and the California rule would have required the court to presume that the owner had granted to its licensee any right that it had not expressly reserved.) Drawing on the principle that the Copyright Act aims to protect authors in their contract dealings the court fashioned a countervailing federal law presumption favoring copyright owners, so that 'copyright licenses are assumed to prohibit any use not authorized'.[19] In the court's words, '[w]e rely on state law to provide the canons of contractual construction, but only to the extent such rules do not interfere with federal copyright law or policy'.[20]

To be sure, not all contract rules – federal or state – will tip the scales in the author's favour. For example, when determining whether ambiguous language in a copyright contract's granting clause effects a narrow transfer, such as an exclusive licence, or a broad one, such as an assignment, courts generally hold that the more extensive right has been granted.[21] Also, some federal courts have been less ambitious than those in the Ninth Circuit in developing an interstitial common law of copyright contracts.[22] Nonetheless, it should be clear that judicial construction of copyright contracts to vest in authors all of the rights – including rights in new technologies and new markets – that are not expressly granted may be even more generous to authors than the French and German remuneration

[18] 886 F.2d 1081 (9th Cir. 1989). [19] 886 F.2d at 1088.

[20] 886 F.2d at 1088. See also *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 854, (9th Cir. 1988) ('Moreover, the license must be construed in accordance with the purpose underlying federal copyright law. . . .We would frustrate the purposes of the Act were we to construe this license – with its limiting language – as granting a right in a medium that had not been introduced to the domestic market at the time the parties entered into the agreement').

[21] See, e.g., *Houghton Mifflin Co. v. Stackpole Sons, Inc.*, 104 F.2d 306, 311, (2d Cir.) *cert. denied*, 308 U.S. 597 (1939); *Hubbard Broadcasting, Inc. v. Southern Satellite Sys., Inc.*, 593 F.Supp. 808, 810–811 (D. Minn. 1984), *aff'd*, 777 F.2d 393 (8th Cir. 1985), *cert. denied*, 479 U.S. 1005 (1986).

[22] See, e.g., *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150 (2d Cir. 1968).

provisions, for they give authors a plenary right over markets, such as the videocassette and DVD market, that were not contemplated at the time the contract was made. In this respect, they approximate Article 31(4) of the German Copyright Act, which provides that no grant can encompass a use that depends on a technology unknown at the time of the grant.[23]

It is of course debatable whether authors are the beneficiaries of paternalistic measures or are in fact their victims. Particularly in the case of mandatory, nonwaivable measures such as the 1976 Copyright Act's termination of transfer provisions, these regulations may require authors to forgo a present economic benefit – the added value a publisher would be willing to pay to be free of the threat of termination – that may be worth much more to authors than some future, and possibly dubious, benefit arising from contract renegotiation 35 years hence. (Cornish's trenchant observations on this phenomenon – accounting not only for economic theory, which would characterize any such contract constraints as foolish, but also for explanations based on how authors view the phenomenon – are well worth reading.[24]) By contrast, rules of contract construction (so long as they are only default rules and are in that sense waivable) offer a less intrusive version of paternalism. They enable authors, if they wish, to trade the promise of long-term advantage for the instant gratification of modest fortune, and do so without sacrificing the moral rewards of autonomy.

[23] See, e.g., *Videoweitausvertung* ('Secondary Exploitation on Video') German Federal Supreme Court, 11 Oct. 1990 (Case No. I ZR 59/89), 22 I.I.C. 574 (1991).

[24] W. Cornish, 'The Author as Risk-Sharer' (2002) 26 Colum. J. L. & Arts 1, 4.