February 2012 MPT

▶ *LIBRARY*

MPT-1: *Franklin Resale Royalties Legislation*

FRANKLIN ASSEMBLY BILL 38

To provide royalties to artists and their heirs on resales of visual art.

SECTION 1. Title 9 of the Franklin Civil Code is amended by adding the following § 986:

986. Resale Royalties

(a) For purposes of this section, the following terms have the following meanings:

(1) "Artist" means the person who creates a work of visual art and who, at the time of resale, is a citizen of the United States or a resident of Franklin.

(2) "Visual art" is an original painting, sculpture, or drawing existing in a single copy.

(3) "Art dealer" means a person who is principally engaged in the business of selling works of visual art for which business such person validly holds a sales tax permit.

(b) Whenever a work of visual art is sold and the seller resides in Franklin or the sale takes place in Franklin, the seller shall pay to the artist of such work of visual art or to such artist's agent five percent of the profit from such sale. The right of the artist to receive an amount equal to five percent of the profit from such sale may be waived only by a written contract providing for an amount in excess of five percent from the profit of such sale. An artist may assign the right to collect the royalty payment provided by this section.

[Provisions dealing with artists who cannot be located are omitted.]

(4) If a seller fails to pay an artist the resale royalties set forth in this subsection, the artist may bring an action for damages.

(5) Upon the death of an artist, the rights and duties created under this section shall inure to his or her heirs until 70 years after the artist's death. The provisions of this paragraph shall be applicable only with respect to an artist who dies after the date of enactment of this Act.

(c) Subsection 986(b) shall not apply to any of the following:

(1) To the initial sale of a work of visual art where legal title to such work at the time of such initial sale is vested in the artist who created it.

(2) To the resale of a work of visual art for which the profit is less than $1,000.

(3) To the resale of a work of visual art by an art dealer within 10 years of the initial sale of the work by the artist to an art dealer, provided all intervening resales are between art dealers.

[Other provisions omitted.]

SELECTED PROVISIONS, 1976 COPYRIGHT ACT (TITLE 17 U.S.C.)

§ 102 (Subject matter of copyright in general)

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expression. . . . works of authorship include the following categories: . . .

(5) pictorial, graphic, or sculptural works . . .

* * * *

§ 106(3) (Exclusive rights in copyrighted works)

Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: . . .

(3) to distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership . . . .

* * * *

§ 109(a) (Limitations on exclusive rights: Effect of transfer of particular copy)

Notwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy . . . .

* * * *

§ 301(a) (Preemption with respect to other laws)

[A]ll the legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by section[] 102 . . . are governed exclusively by this title. [N]o person is entitled to any such right or equivalent right in any such work under the common law or the statutes of any State.

Samuelston v. Rogers

United States Court of Appeals (15th Cir. 1977)

Arthur Samuelston is an art dealer. On March 24, 1975, he sold two paintings under circumstances that required him to pay royalties to the artist, Clay Rogers, under the Columbia Resale Royalties Act (the "Columbia Act"). When Rogers demanded those royalties, Samuelston challenged the Columbia Act's constitutionality, claiming that it is preempted by the 1909 Copyright Act. The district court rejected Samuelston's argument, and we affirm.

The 1909 Act and Samuelston's Argument: Section 1 of the federal 1909 Act grants to a copyright owner "the exclusive right: (1) To . . . vend the copyrighted work." Section 27 reads: "but nothing in this title shall be deemed to . . . restrict the transfer of any copy of a [lawfully possessed] copyrighted work" after the first transfer of that copy is made (this provision is termed the "first sale doctrine"—the copyright owner's right to control the sale of copies is limited to the first sale of any copy). Samuelston contends that the Columbia Act both impairs the artist's ability to "vend" the work and "restricts the transfer" of a copy of the work. Thus, he argues, the federal 1909 Act preempts the Columbia Act as a matter of federal supremacy.

The Preemption Doctrine: Federal law preempts state law to the extent that federal law has "occupied the field" and state law "conflicts" with federal law. The Supreme Court has spoken on this issue, as regards the 1909 Copyright Act, in *Goldstein v. California*, 412 U.S. 546 (1973). There, the Court upheld a California statute making record piracy a criminal offense; record piracy was not an activity covered at the time by the 1909 Copyright Act. The Court refused to read the Constitution's Copyright Clause, which grants Congress the power to enact copyright legislation, to deprive the states of all power over the subject matter of copyright. Rather, the Court held that Congress had neither exercised its full power as to record piracy (and was not required to do so) nor evinced an intent to bar state legislation in this area. Thus, it had not "fully occupied" the field, nor was there any conflict between the 1909 Act and the state statute. Thus, the California statute "[did] not intrude into an area which Congress has, up to now, preempted" and the state was free to enact legislation which touched on copyright in this instance.

The Columbia Act Is Not Preempted: The same holds true here. The Columbia Act in no way impinges upon the artist's right to "vend" a copy of the work he or she has created under section 1, for the Columbia Act applies only *after* the artist has sold the copy of the work. The Columbia Act provides an *additional* right not granted by the 1909 Act.

Nor does the Columbia Act "restrict the transfer" of a copy of the work under section 27. The copy of the work may be transferred without restriction. The fact that, under the Columbia Act, a resale may create a liability to the artist (in that royalties may be owed) and, at the same time, constitute an exercise of a right under the 1909 Act does not make the former a *legal* restraint on the latter, whatever the *economic* implications of the Columbia Act may be.

We conclude by noting that we do not consider the extent to which the recently enacted (but not yet effective) 1976 Copyright Act may preempt the Columbia Act. (The 1976 Act was signed into law on October 19, 1976, but will not become generally effective until January 1, 1978.) Our holding and reasons address the 1909 Copyright Act only.

Affirmed.

Franklin Press Service v. E-Updates, Inc.
Franklin Court of Appeal (2011)

Plaintiff Franklin Press Service (FPS) is a news cooperative that furnishes news stories to subscribing newspapers and other news outlets throughout the state of Franklin. It delivers its news reports through various means, including securely encrypted Internet transmissions. It also has a publicly available website through which members of the public may access its news stories at no cost. The defendant, E-Updates, Inc., is an Internet news site which furnishes news stories, including its own commentary, to members of the public who pay a fee for the service.

FPS's complaint alleged that E-Updates appropriated "hot news"—i.e., news that FPS itself had gathered and had just reported—from FPS's public website and, without taking FPS's exact language, placed that news on its own website with neither permission from nor attribution to FPS. FPS sued for that form of unfair competition known as misappropriation under Franklin state common law.

E-Updates moved to dismiss on the ground that Franklin's common law of misappropriation is preempted by the 1976 Copyright Act, 17 U.S.C. § 301(a), which provides: "all the legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright . . . and come within the subject matter of copyright . . . are governed exclusively by this title. [N]o person is entitled to any such right or equivalent right in any such work under the common law or the statutes of any State." The trial court denied the motion to dismiss and granted leave for interlocutory appeal. We affirm.

E-Updates's claim is easily dealt with. By its own statutory language, the Copyright Act's preemption provision in § 301(a) sets forth two criteria which must *both* be met for preemption: First, the work must "come within the subject matter of copyright." Works that come within the subject matter of copyright are set forth in § 102 of the 1976 Copyright Act. Second, the rights involved must be within the "exclusive rights" granted to a copyright owner. The exclusive rights are set forth in § 106, and the limitations are set forth in succeeding sections. It is well settled that state common law or statutes that establish causes of action that are based on works not within the subject matter of copyright, or that include an element that legitimately differs from, or is in addition to, the rights in a copyright, are not "within the subject matter of copyright" or the "exclusive rights within the general scope of copyright," and so are not preempted.

The tort of misappropriation of "hot news" has been accepted as Franklin state common law. It differs from a claim of copyright infringement in several ways.

First, unlike a novel or a musical composition, reproduction of the news itself does not come within the subject matter of copyright. Copyright protects the expression of ideas but not the ideas themselves, 17 U.S.C. § 102(b). It is well settled that the facts of current events which make up the news are "ideas," as opposed to the particular phrasing of a news story, which is "expression."

Second, even if that were not the case, the other requirement for preemption under § 301(a) is not present. That is because proof of common law misappropriation involves rights different from the exclusive rights granted to the copyright owner by the Copyright Act, in that there must be proof of elements that are in addition to or differ from those necessary to prove infringement of copyright—specifically, that the misappropriation is of information which has been gathered at cost, is time-sensitive, constitutes free riding by a competitor, and so reduces the incentive to produce the service. Such is the case here.

We conclude that Franklin's common law cause of action for misappropriation is not preempted, and we affirm the order denying the motion to dismiss.