

Winter 2017

## Droit de Suite, Copyright's First Sale Doctrine and Preemption of State Law

David E. Shipley

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### Recommended Citation

David E. Shipley, *Droit de Suite, Copyright's First Sale Doctrine and Preemption of State Law*, 39 HASTINGS COMM. & ENT. L.J. 1 (2017). Available at: [https://repository.uchastings.edu/hastings\\_comm\\_ent\\_law\\_journal/vol39/iss1/1](https://repository.uchastings.edu/hastings_comm_ent_law_journal/vol39/iss1/1)

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# ***Droit de Suite*, Copyright’s First Sale Doctrine and Preemption of State Law**

*by* DAVID E. SHIPLEY\*

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## **I. Introduction**

Copyright law in the United States grants visual artists<sup>1</sup> the right to control reproductions and adaptations of their original works<sup>2</sup> as well as the

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1. For purposes of this article, visual artists include painters, illustrators, sculptors, and photographers. Office of the Register of Copyrights, *Resale Royalties: An Updated Analysis 1* (December 2013) [hereinafter Register’s Update].

2. 17 U.S.C. §§ 106(1) & (2).

moral rights of attribution and integrity.<sup>3</sup> It also gives artists the exclusive right to control the first public distribution of their works.<sup>4</sup> Copyright does not, however, give visual artists the right to royalties on resales of their works of art even if they retain their copyrights. Instead, it provides that the owner of an acquired work of art “is entitled, without authority of the copyright owner, to sell or otherwise dispose of that copy.”<sup>5</sup> The purchaser’s right to resell the work of art is protected by copyright’s first sale doctrine.<sup>6</sup> Bills to amend the first sale doctrine to provide a resale royalty for works of visual art, also called *droit de suite*, have been proposed since the 1970s.<sup>7</sup> This legislation would give artists a percentage of the amount paid for one of their works each time that work is resold by another party. It recognizes that the increase in the value of original art works is due more to the artist’s subsequent works and increased popularity than to anything done by the initial buyer.<sup>8</sup> Resale royalties enable artists to share in the long term financial success of their works.<sup>9</sup>

Notwithstanding this rationale for enacting a resale royalty as well as perceived disparities between copyright’s treatment of visual artists compared to other creators<sup>10</sup> and endorsement of *droit de suite* by the Register of Copyrights in 2013,<sup>11</sup> federal proposals on resale royalty have not reached a consensus.<sup>12</sup> However, the California legislature enacted its own Resale Royalties Act (CRRRA) in 1976. In simplified form, the Act provides a five percent royalty to the artist for any original work that is sold for \$1,000 or more whenever the seller resides in California, or the sale takes place in California, if the resale price exceeds the purchase price paid by the seller.<sup>13</sup> Shortly after its passage, the CRRRA was challenged as an

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3. 17 U.S.C. § 106A. *See generally* David Shipley, *The Empty Promise of VARA: The Restrictive Application of a Narrow Statute*, 83 MISS. L.J. 985 (2014) [hereinafter *The Empty Promise*].

4. 17 U.S.C. § 106(3).

5. 17 U.S.C. § 109(a).

6. *Quality King Distribs Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 141 – 142 (1998); *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 349 – 50 (1908).

7. *Droit de Suite: The Artist’s Resale Royalty*, December 1992, A Report of the Register of Copyrights, at 86 [hereinafter Register’s 1992 Report]; Register’s Update, *supra* note 1, at 6 – 9.

8. Register’s Update, *supra* note 1, at 11 – 12.

9. *Id.* at 1.

10. *See infra* notes 25 to 32.

11. Register’s Update, *supra* note 1, at 65 – 66.

12. *Id.* at 9-12; Register’s 1992 Report, *supra* note 7, at 86.

13. Cal. Civ. Code §§ 986(a) & (b); *see* G.L. Francione, *The California Art Preservation Act and Federal Preemption by the 1976 Act – Equivalence and Actual Conflict*, 31 ASCAP COPYRIGHT LAW SYMP. 105, 106 – 10 (1984) (noting that California’s law is broader than its European counterparts) [hereinafter G.L. Francione]. Until 2015 the CRRRA mandated a royalty if the seller resided in California, regardless of where the sale takes place. This was held to be

impermissible limitation on the purchaser's right under the first sale doctrine to distribute his or her lawfully purchased work of art. In 1980 the Ninth Circuit held in *Morseburg v. Balyon* that the CRRA was not preempted under the 1909 Copyright Act because it merely supplemented copyright law by providing an additional right to the artist, and this royalty right did not impermissibly restrict resales.<sup>14</sup> The court stated clearly that it was not addressing whether the CRRA might be preempted under section 301 of the then recently enacted Copyright Act of 1976.<sup>15</sup>

In 2015, the Ninth Circuit reviewed a lower court decision from a series of consolidated cases filed in 2011, in which the CRRA was challenged by art dealers and auction houses.<sup>16</sup> In an *en banc* ruling, the court affirmed the district court's holding that the sections of the statute regulating out-of-state sales were unconstitutional under the Dormant Commerce Clause but held, contrary to the lower court's decision, that the CRRA's sections regulating sales within California were severable.<sup>17</sup> The Supreme Court declined to review the Ninth Circuit's ruling.<sup>18</sup> The case was remanded to the district court, in which the defendants repeated preemption arguments similar to those made three decades earlier in *Morseburg*, while also asserting that the statute was preempted under the 1976 Copyright Act's preemption provision; section 301.<sup>19</sup>

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unconstitutional under the dormant commerce clause. However, an artist's right to a royalty when his or her art is resold within California was treated as severable; *see infra* notes 16 to 19 and 96 to 106 and accompanying text.

14. 621 F.2d 972, 978-79 (9th Cir. 1980), *cert. denied*, 449 U.S. 983 (1980).

15. *Id.* at 975 & n.2 (the sales in question were before the Copyright Act of 1976 became effective on January 1, 1978). *See also infra* note 87.

16. The cases are *Estate of Graham v. Sotheby's Inc.*, *The Sam Francis Foundation v. Christies, Inc.*, and *Sam Francis Foundation v. eBay Inc.* In all three the plaintiffs alleged that the defendants failed to honor their obligations under the CRRA, and the defendants responded by arguing that the statute was invalid on several different grounds. The cases were ultimately consolidated. *See infra* notes 96 to 106 and accompanying text.

17. *Sam Francis Found. v. Christies, Inc.*, 784 F.3d 1320 (9th Cir. 2015), *cert. denied*, 136 S. Ct. 795 (2016). The trial court had held that the provisions regulating sales out of state could not be severed. Gonzalo Zeballos, "Artists and Auction Houses Declare Victory Over California Artists' Resale Royalties Statute", MONDAQ (Feb. 18, 2016), <http://www.mondaq.com/united-states/x/467490/music+arts/Artists+and+Auction+Houses+Declare+Victory+Over+California+Artists+Resale+Royalties+Statute>; Dennis Cohen, "Ninth Circuit Draws Fine Line Around Fine Art Resale Royalties", IP INTELLIGENCE (May 12, 2015), <https://www.ipintelligencereport.com/2015/05/12/ninth-circuit-draws-fine-line-around-fine-art-resale-royalties/>.

18. *Sam Francis Found. v. Christies, Inc.*, 784 F.3d 1320 (9th Cir. 2015), *cert. denied*, 136 S. Ct. 795 (2016); Brian Boucher, *Supreme Court Declines to Hear Artists' Resale Royalty Suit – Who Wins?*, ART WORLD (Jan. 12, 2016), <https://news.artnet.com/art-world/supreme-court-declines-artists-resale-royalty-appeal-406106>. *See generally* Register's Update, *supra* note 1, at 21 – 22.

19. Eric Hiatt, "Validity of California Resale Royalty Act Faces Another Court Challenge", COPYRIGHT, CONTENT, AND PLATFORMS (Feb. 26, 2016), <http://www.copyrightcontentplatforms.com>.

On remand, the U.S. District Court for the Central District of California held in *Estate of Graham v. Sotheby's Inc.* that recent decisions of the U.S. Supreme Court and the Ninth Circuit “have so eroded *Morseburg* that it no longer represents a binding interpretation of the first sale doctrine and the CRRA.”<sup>20</sup> The court ultimately held that the CRRA was preempted because it conflicted with the first sale doctrine codified in section 109 of the Copyright Act, and also because the artists’ claims for unpaid royalties under the CRRA were independently preempted under section 301(a). The court said the artists’ claims were not qualitatively different from garden variety copyright claims.<sup>21</sup>

The *Estate of Graham* decision certainly will be reviewed by the Ninth Circuit and might eventually find its way to the Supreme Court. The high court has not addressed a preemption issue in the general field of intellectual property since the *Bonito Boats* decision in 1989,<sup>22</sup> and it has never addressed a preemption issue arising under section 301 of the Copyright Act of 1976. The focus of this article is not about whether the United States should implement *droit de suite*.<sup>23</sup> Rather, this article concentrates on two relatively narrow questions: (1) whether the CRRA is preempted under the Constitution’s Supremacy Clause (conflict preemption) because it disrupts Congress’s efforts to balance the interests of copyright right owners and consumers; and (2) whether it is preempted under section 301 of the Copyright Act (express preemption). This article concludes that the federal district court in *Estate of Graham* arrived at the right conclusion: the CRRA, California’s *droit de suite* statute, is preempted under either section 301 of the Copyright Act or under conflict preemption analysis because the statute frustrates the purposes of copyright law’s well-established first sale doctrine.

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com/2016/02/validity-of-california-resale-royalty-act-faces-another-court-challenge/; Howard B. Abrams, 1 *The Law of Copyright* § 5:188 (2015).

20. 2016 WL 1464229, at \*6 (C.D. Cal. 2016), *motion to alter and amend denied*, 2016 WL 4136540 (C.D. Cal. 2016).

21. 2016 WL 1464229, at \*9.

22. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); PAUL GOLDSTEIN & R. ANTHONY REESE, *COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES* 642-79 (Foundation Press, 7th ed. 2012), (coverage of the U.S. Supreme Court’s intellectual property preemption decisions from *Sears* in 1964 through *Bonito Boats* in 1989).

23. There is abundant literature arguing for and against recognition of *droit de suite* in the United States. See, e.g., Gordon Katz, *Copyright Preemption Under the Copyright Act of 1976: The Case of Droit de Suite*, 47 *GEO. WASH. L. REV.* 200 (1978), *Monroe Price, Government Policy and Economic Security for Artists: The Case of Droit de Suite*, 77 *YALE L.J.* 1333 (1968), Carole Vickers, *The Applicability of Droit de Suite In the United States*, 3 *B.C. INT’L & COMP. L. REV.* 433 (1980), Kathryn Bue, Comment, *The Droit de Suite Has Arrived: Can It Thrive in California As It Has in Calais?* 11 *CREIGHTON L. REV.* 529 (1977), Register’s 1992 Report, *supra* note 7, at 149 – 51; Register’s Update, *supra* note 1, at 4 – 10.

Part One of this article provides background on *droit de suite* and its lack of recognition in the United States.<sup>24</sup> Part Two explains the tension between the resale royalty and copyright principles, particularly the first sale doctrine. Parts Three and Four discuss conflict preemption, the *Morseburg* decision from 1980, and whether *Morseburg* is still good law on preemption. Part Five of this article discusses whether the CRRA is subject to express preemption by section 301(a) of the Copyright Act. Part Six of the article discusses several other arguments for and against preemption of the CRRA. The Conclusion ties these parts together and explains why, on balance, the California statute is subject to conflict preemption under the Supremacy Clause and express preemption under the Copyright Act.

## II. A Brief History of Resale Royalty in the United States

*Droit de suite*, first introduced in France in the 1920s, gives visual artists—primarily painters and sculptors—the right to benefit financially from the increased value of their works over time by granting them a percentage of the proceeds each time one of their original works is resold.<sup>25</sup> “[I]n other words when an owner of the art object sells it to a third party (if the seller makes a profit), the artist receives a payment.”<sup>26</sup>

Resale royalty rights derive from moral rights. The two fundamental moral rights protect the attribution privilege—paternity—and against the mutilation of works—integrity—while *droit de suite* enables artists to benefit from the appreciation in the value of their works of art.<sup>27</sup> It is an economic right with a moral rights heritage.<sup>28</sup> The rationale for providing this royalty is based on recognition that unlike authors and composers who are able to offer thousands of copies of their works to the public, artists create a limited number of unique works. An author and his or her publisher may sell many copies of the same novel; a composer’s popular song may be downloaded repeatedly and performed publicly over and over, both generating substantial royalties; and a movie may be shown in hundreds of theaters across the nation while thousands of DVDs of the film may be sold. In each of these transactions, many members of the general public are enjoying the same work and the creator is compensated for many of these uses. On the other hand, visual artists cannot generally rely on

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24. As in the Ninth Circuit’s 1980 preemption decision concerning the CRRA, resolution of the dispute over the need for resale royalty legislation is not necessary for purposes of this article. *Morseburg v. Balyon*, 621 F.2d 972, 976 (1980).

25. Register’s Update, *supra* note 1, at 4.

26. Corporate Counsel’s Guide to Copyright Law, Resale Royalties § 4:14 (2015).

27. Register’s Update, *supra* note 1, at 4.

28. G.L. Francione, *supra* note 13, at 109 – 10.

repeated uses of their unique works. The visual artist is compensated when he or she sells a painting or sculptural work but, for the most part, the artist's compensation ends because the artist has but one financial interest, or perhaps an interest in a few limited editions of a numbered print or sculptural work.<sup>29</sup> Over time, as an artist's reputation grows and his or her works appreciate in value, the person who stands to gain from subsequent sales of those appreciated paintings and sculptural works is the collector, not the visual artist who created the work.<sup>30</sup> Resale royalty laws address this disparity in how copyright law protects and rewards visual artists compared to authors, composers and other creators.<sup>31</sup> Hence, *droit de suite* can be justified as compensation for the lack of a marketable reproduction right for many works of fine art.<sup>32</sup>

The Berne Convention for the Protection of Literary and Artistic Works was amended in 1948 to include *droit de suite*; Article 14 of the Convention provides creators of original works of art and original manuscripts with an inalienable right to an interest in any subsequent sale of the work after its first transfer by the creator.<sup>33</sup> The resale right is optional, meaning that Berne's member states are not required to implement *droit de suite*.<sup>34</sup> Still, at least 70 countries currently have legislation protecting artists' resale royalty rights.<sup>35</sup> *Droit de suite* is well-established in Europe and the European Union ("EU") harmonized *droit de suite* laws in 2001, notwithstanding hesitation from the "United Kingdom ("UK"). The United States has been adhering to the Berne Convention since 1989 but Congress has not enacted *droit de suite* legislation.<sup>36</sup> The Berne Convention also makes *droit de suite* a reciprocal right. This means

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29. Register's Update, *supra* note 1, at 10 – 11; Register's 1992 Report, *supra* note 7, at 125.

30. Register's Update, *supra* note 1, at 11. "An increase in the price of an artist's works after they have left his hands may be the result of greater recognition of the artist, an increase in the overall demand for art works, inflation, unpredictable shifts in fashion and taste, or some combination of the above." *Morseburg v. Balyon*, 621 F.2d at 976

31. Paul Katzenberger, *The Droit de Suite in Copyright Law*, 4 IIC, INT'L REV. OF INDUS. PROP. AND COPYRIGHT LAW 361, 368 (1973).

32. Register's 1992 Report, *supra* note 7, at 125 – 26. Royalty rights are needed because artists are not adequately compensated for their contributions to society due to complex factors determining the value of original works of art and because existing forms of protection—copyright law and contract law—have not helped because original works of visual art are not often reproduced and artists often lack bargaining power. Sharon Emley, *The Resale Royalties Act: Paintings, Preemption and Profit*, 8 GOLDEN GATE U. L. REV. 239, 240 – 40 (1978) (hereinafter Emley).

33. Register's Update, *supra* note 1, at 4.

34. *Id.* at 4 – 5.

35. *Id.* at 13 – 19; Zeballos, *supra* note 17.

36. Craig Joyce et al., *Copyright Law* 33 – 38 (9th Edition 2013), LexisNexis (discussion of the United States becoming a signatory to the Berne Convention).

that if a member state does not grant a resale royalty, its citizens cannot benefit from the right in other countries which have enacted *droit de suite*. Since Congress has not enacted resale royalty, artists from the U.S. do not earn royalties from resale of their works in countries with resale royalty protection.<sup>37</sup>

Bills to amend the Copyright Act to provide for resale royalties were introduced as early as 1978.<sup>38</sup> When Congress enacted the Visual Artists Rights Act in 1990, it directed the Register of Copyrights to study the feasibility of implementing resale royalty legislation in the United States.<sup>39</sup> The Register concluded in 1992 that *droit de suite* might not be an appropriate addition to U.S. copyright law because it would not fit well with our free market traditions.<sup>40</sup> However, two decades later, after updating that 1992 study, the Register changed course to state that it “supports the right as one alternative to address the disparity in treatment of artists under the copyright law.”<sup>41</sup> Still, Congress has not acted.

Efforts to incorporate this concept in state law in the United States have not been successful but for the California statute, which is the primary focus of this article. However, legislation was introduced in 11 other states including New York and Illinois.<sup>42</sup> The California Resale Royalty Act (CRRA), which applies to fine art—defined as original paintings, sculptures, drawings and glass works—requires the seller of fine art to pay the artist a 5% royalty when a work is resold in California or resold anywhere by a California resident.<sup>43</sup> This right cannot be waived unless there is a written contract providing for a royalty in excess of 5%.<sup>44</sup> The seller of the art work, or that seller’s agent, is required upon a sale to withhold 5% of the sale price, find the artist, and then pay the artist. If the artist is not paid, he or she may bring a civil action for damages. The CRRA also provides that the prevailing party shall be entitled to attorney’s

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37. Register’s Update, *supra* note 1, at 4 – 5.

38. *Id.* at 6 – 10 and 23 – 25 (discussing proposed legislation).

39. The Register’s 1992 study of resale royalty legislation was the result of section 608 of the Visual Artists Rights Act of 1990 (legislation that amended the Copyright Act to add limited protection of artists’ moral rights). This section required the Register of Copyrights to study the feasibility of implementing a resale royalty right for visual artists in the United States.

40. Register’s 1992 Report, *supra* note 7, Executive Summary at xiv-xv. *See also* Register’s Update, *supra* note 1, at 8.

41. Register’s Update, *supra* note 1, at 3. *See generally* Herbert Lazerow, *Art Resale Royalty Options*, 63 J. COPYRIGHT SOC’Y 201 (2016) (a comprehensive discussion of possible legislation with comparison to laws in Australia, England, France as well as California).

42. Register’s 1992 Report, *supra* note 7, at 75.

43. Cal. Civ. Code § 986(a). The act is applicable only if at the time of resale the artist is either a citizen of the United States or a resident of California for a minimum of two years. *Id.* § 986(c)(1).

44. *Id.* § 986(a).

fees. This royalty right succeeds to the artist's heirs for 20 years after the artist's death.<sup>45</sup> Artists' rights to this royalty do not depend on their retaining copyright to their works of art.<sup>46</sup>

### III. The CRRA/Copyright Conflicts

The CRRA is limited to the resale of paintings, sculptural works, and drawings.<sup>47</sup> Such works fall within the Copyright Act's "pictorial, graphic, and sculptural work" category of copyrightable subject matter,<sup>48</sup> and are defined as follows:

. . . two-dimensional and three-dimensional works of fine, graphic, and applied art, photographs, prints and art reproductions, maps, globes, charts, diagrams, models, and technical drawings, including architectural plans. . . .<sup>49</sup>

The owner of copyright in a pictorial, graphic or sculptural work has the right to reproduce the work in copies, to prepare derivative works based upon the work, to distribute copies of the work to the public, and to display the work publicly.<sup>50</sup>

Section 202 of the Copyright Act provides:

Ownership of a copyright . . . is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright . . . convey property rights in any material object.<sup>51</sup>

Hence, the purchaser of a painting or sculptural work from an artist owns the object but not the copyright unless the artist transfers some or all of the rights in the copyright bundle. The purchaser cannot reproduce the painting, modify it or, subject to certain limitations, publicly display it without the artist's permission. These are some of the exclusive rights that the artist retains even though he or she no longer possesses the tangible

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45. *Id.* §§ 986(a) & (b). *See generally* Register's 1992 Report, *supra* note 7, at 65 – 68.

46. Register's Update, *supra* note 1, at 20 – 21. *See generally* G.L. Francione, *supra* note 13, at 106 & n.6 (summary of the California law).

47. Cal. Civ. Code § 986(c)(2).

48. 17 U.S.C. § 102(a)(5).

49. *Id.* § 101 (definitions).

50. *Id.* §§ 106(1), (2), (3) & (5).

51. *Id.* § 202.

object. Section 202 reversed a common law copyright doctrine in some jurisdictions that established that artists were presumed to transfer their rights when they sold their works of art.<sup>52</sup> Under the Copyright Act, a transfer of copyright ownership is not valid unless it is in writing, signed by the owner of the rights being conveyed.<sup>53</sup>

The right at issue with resale royalty statutes is the copyright holder's exclusive right to "distribute copies . . . of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending."<sup>54</sup>

The Copyright Act defines "copies" as:

material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.<sup>55</sup>

Combining the distribution right with the definition of "copies" means that an artist has the right to decide when to sell his or her painting or sculptural work. The distribution right, also called "the right of first publication," "implicates a threshold decision by the author whether and in what form to release his work. First publication is inherently different from other § 106 rights in that only one person can be the first publisher."<sup>56</sup>

The distribution right is limited by the first sale doctrine, codified at section 109(a). It provides:

[n]otwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title . . . is entitled without authority of the copyright owner, to sell or otherwise dispose of the possession of that copy....

The first sale doctrine provides that "once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."<sup>57</sup> The doctrine was recognized by the Supreme Court in 1908 in *Bobbs-Merrill Co. v. Straus*<sup>58</sup> in which the exclusive right to vend under the pre-1909

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52. *Pushman v. N.Y. Graphic Soc.*, 39 N.E.2d 249 (N.Y. 1942); Katz, *supra* note 23, at 201.

53. 17 U.S.C. § 204(a).

54. *Id.* § 106(3).

55. *Id.* § 101 (definition of "copies").

56. *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 553 (1985).

57. *Quality King Distributors, Inc. v. L'Anza Research Int'l, Inc.* 523 U.S. 135, 152 (1998).

58. *See* 210 U.S. 339 (1908).

statute was interpreted as limited to the initial sale of the work, but not resales. The doctrine was codified in section 27 of the Copyright Act of 1909 and then reaffirmed in section 109(a) of the Copyright Act of 1976. The Supreme Court has stated that the first sale doctrine creates robust secondary markets by “leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods.” It shifts market power away from copyright owners to competitors in order to “advantage . . . the consumer.”<sup>59</sup>

What does this mean for visual artists and their paintings and sculptural works? Sections 202 and 109(a) combine to mean that the purchaser of a painting or sculptural work is free to sell or otherwise dispose of that work of art—the object—without permission of the artist even when the artist retains the copyright on that work of art. However, the purchaser/owner cannot reproduce the painting as a poster or greeting card, or adapt it for a wallpaper pattern or fabric design, without the artist’s permission. Also, the purchaser/owner of the object—the work of art—can also display it, either directly or by projection of a single image, to viewers present at the place where the object is located without infringing on the artist’s right to control public displays of the work.<sup>60</sup> The basic principle of first sale is that the buyer of a copyrighted work like a painting is free to dispose of it as he or she wishes without regard to the wishes of the copyright holder.<sup>61</sup> The artist/copyright holder cannot use the distribution right to fix resale prices in downstream markets because that right is limited to the first sale of the work.<sup>62</sup>

The conflict preemption issue is whether California’s *droit de suite* statute is at odds with fundamental copyright principles by simultaneously: (1) improperly enhancing an artist’s distribution right; and (2) improperly limiting a purchaser’s first sale right under section 109(a) to distribute his or her lawfully purchased copy of a work of art. Or in other words, to sell the object. Is the statute an impermissible restraint on alienation? Does it undermine first sale and the principle of free alienation of personal property by preventing buyers of fine art from acquiring unencumbered title to a work of fine art?<sup>63</sup>

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59. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013).

60. 17 U.S.C. § 106(3) as limited by 17 U.S.C. § 109(a). Assuming the work of visual art comes within the scope of VARA, the artist also retains his moral rights of integrity and attribution whether or not he or she assigns copyright to the purchaser of the work of art. *Id.* § 106A. *See also The Empty Promise*, *supra* note 3, at 993 – 94.

61. *Kirtsaeng*, 133 S. Ct. at 1355; *Omega S.A. v. Costco Wholesale Corp.*, 776 F.3d 692, 695 (9th Cir. 2015).

62. *Omega S.A.*, 776 F.3d at 695.

63. Register’s Update, *supra* note 1, at 58.

The express preemption issue turns on the interpretation and application of section 301(a) of the Copyright Act, which provides:

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

Section 301 reflects congressional intent to preempt and abolish state common law copyright and any rights under common law or statute that are equivalent to any of the exclusive rights enjoyed by copyright owners and that extend to works coming within the scope of copyright law.<sup>64</sup> Deciding whether a state law claim is preempted under section 301(a) has two steps; both of which must be satisfied. A court first has to determine whether the subject matter of the state claim falls within the subject matter of copyright under section 102. This is a given with the CRRA because the subject matter of an artist's claim for unpaid resale royalties is a copyrighted work of fine art.<sup>65</sup> The second inquiry is whether the right being asserted is equivalent to any of the exclusive rights contained in section 106. If it is, then the state law claim is preempted.<sup>66</sup> If the state law claim is, in essence, qualitatively no different from a copyright infringement claim, it will be preempted.<sup>67</sup> This is also shown by section 301(b) which provides that states may protect rights and interests which are not equivalent to those protected by federal copyright law. "Therefore, only the equivalency requirement of the statutory test need be considered. If the rights conferred by [the CRRA] are equivalent to those conferred by the Copyright Act . . ." the CRRA is preempted.<sup>68</sup>

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64. H.R. REP. NO. 1476-94, at 31 (1976) [hereinafter H.R. REP.].

65. Emley, *supra* note 32, at 254.

66. *Laws v. Sony Music Entertainment, Inc.*, 448 F.3d 1134, 1137-38 (9th Cir. 2006).

67. *Id.* at 1144.

68. Emley, *supra* note 32, at 254. The CRRA's sponsor in the California legislature acknowledged that the law might be preempted by the Copyright Act. G.L. Francione, *supra* note 13, at 107 n.6.

#### IV. *Morseburg v. Balyon* and Conflict Preemption

Preemption doctrine, derived from the Supremacy Clause of the U.S. Constitution, nullifies a state statute or common law that frustrates accomplishing the objectives of an act of Congress.<sup>69</sup> “[T]he extent to which the federal laws has ‘occupied the field’ and the presence of ‘conflict’ between the federal and state laws have always been focuses of analytic attention. The nature of the Court’s emphasis at a particular time is revealed by whether ‘occupation of the field’ and ‘conflict’ are easily found to exist or not.”<sup>70</sup> The Supreme Court has decided seven cases since 1964 involving the preemption of state law affecting some type of intellectual property. The Court’s initial rulings in the companion cases of *Sears* and *Compco* seemed strong and unambiguous: a state cannot prevent the copying of an article unprotected by a patent or copyright under its law of unfair competition.<sup>71</sup> This promoted national uniformity. However, it soon became clear that these decisions did not prevent the states from providing limited forms of protection to subject matter which falls within the patent and copyright domains. For example, dicta in *Lear, Inc. v. Adkins*<sup>72</sup> recognized a state’s power to enforce a promise to pay royalties for use of an unpatentable invention while the patent application was pending. These decisions promoted federalism.<sup>73</sup>

When analyzing the CRRA it becomes especially relevant to consider *Goldstein v. California*,<sup>74</sup> in which the Court held that the Constitution’s grant of copyright power to Congress was not exclusive. The defendants argued that the Copyright Act of 1909, which excluded sound recordings from its coverage, preempted state protection of those “writings,”<sup>75</sup> but the Court upheld California’s statute, which made record piracy a criminal offense.<sup>76</sup> It said that the states retained concurrent power to protect some works of authorship if such protection did not conflict with federal law.<sup>77</sup> It saw no Congressional intent to foreclose state regulation of sound recordings—a category of writings left unprotected by Congress at that time—so long as state regulation did not interfere with federal copyright

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69. *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

70. *Morseburg v. Balyon*, 621 F.2d at 976.

71. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); Ralph Brown, *Design Protection: An Overview*, 34 UCLA L. REV. 1341, 1359 (1987).

72. 395 U.S. 653, 674-75 (1969).

73. *Cf. Morseburg v. Balyon*, 621 F.2d at 976.

74. 412 U.S. 546 (1973).

75. *Id.* at 566.

76. *Id.* at 570 – 71.

77. *Id.* at 552 – 61.

law policy.<sup>78</sup> Nothing indicated that sound recordings had to be free of state control.<sup>79</sup> The states could thus afford copyright-like protection to these published writings that did not, at that time, fall within the scope of federal copyright law. However, the Court also noted that “a conflict [leading to preemption] 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.”<sup>80</sup>

The other post-*Sears* and *Compro* decisions; *Kewanee Oil v. Bicron Corp.*, *Aronson v. Quick Point Pencil Co.*, and *Bonito Boats v. Thunder Craft Boats, Inc.* demonstrate that the Supreme Court regards state and federal regulation of intellectual property as concurrent.<sup>81</sup> Federal controls do not displace a state’s statutory or common law forms of protection merely because the state doctrine is related to intellectual property potentially eligible for patent or copyright protection.<sup>82</sup> State regulation of intellectual property is preempted when it conflicts with the objectives of federal law.<sup>83</sup> State law must give way when it disrupts the delicate balance between the copyright holders and the general public that Congress seeks to maintain when promulgating copyright law.<sup>84</sup>

The first version of the CRRRA was upheld against a preemption challenge over 35 years ago in *Morseburg v. Baylon*,<sup>85</sup> due in large part to the Supreme Court’s *Goldstein* decision.<sup>86</sup> The suit was filed by a Los Angeles art dealer who had sold two paintings in 1977, triggering his obligation to pay royalties under the statute. He sought a declaratory judgment that the law was preempted by the Copyright Act of 1909.<sup>87</sup> The

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78. *Id.* at 564-69; *see also* *Morseburg*, 621 F.2d at 977 (saying that Congress had evidenced no intent to bar states from exercising their power—so the area had not been fully controlled by federal authority).

79. 412 U.S. at 566.

80. *Id.* at 559.

81. 416 U.S. 470 (1974); 440 U.S. 257 (1979); 489 U.S. 141 (1989). In these cases, state law affords protection to subject matter that was unprotected by copyright or design patent as a matter of federal law.

82. 440 U.S. at 266.

83. *Kewanee Oil v. Bicron Corp.*, 416 U.S. at 479.

84. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989). *See generally* David E. Shipley, *Refusing To Rock The Boat: The Sears/Compro Preemption Doctrine Applied To Bonito Boats V. Thunder Craft*, 25 WAKE FOREST L. REV. 385, 387 – 91 (1990) [hereinafter “*Rock the Boat*”].

85. CV 77-2410, 1978 WL 980 \*1 (C.D. Cal. Mar. 23, 1978), *aff’d*, 621 F.2d 972 (9th Cir. 1980), *cert. denied*, 449 U.S. 983 (1980).

86. “We hold that *Goldstein* governs this case.” *Morseburg v. Baylon*, 621 F.2d at 977.

87. 1978 WL 980, at \*2. He also claimed that the law unduly burdened interstate commerce, deprived him of property without due process, and retroactively altered the terms of the contract by which he bought the works of art. The district court ruled against him on all of these challenges but did not reach the commerce clause issue because the transactions took place

distribution right was called “the right to vend” in section 1 of the 1909 statute, and the first sale doctrine was codified at section 27 that provided: “but nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.” The art dealer argued that the CRRA impaired an artist’s ability to vend his works of fine art, and also restricted the transfer of the work when in the hands of someone, like him, who had lawfully obtained the work from the artist. And thus, the CRRA conflicted with the 1909 Act and should be preempted.<sup>88</sup>

The lower court concluded that the CRRA was not preempted, reasoning that no congressional intent was present seeking to regulate the sale of works of art. In addition, the statute did not affect the compensation the artist received on making the first transfer of the art work so it did not conflict with the right to vend. The court did not address the alleged conflict with first sale but stated that the CRRA did not frustrate federal objectives; rather, it encouraged the production and distribution of copyrightable works of fine art, and helped reward artists for their creative efforts.<sup>89</sup>

The Ninth Circuit affirmed, relying heavily on the Supreme Court’s 1973 decision in *Goldstein* that had upheld California’s record piracy statute against a preemption challenge. After discussing the CRRA and the U.S. Supreme Court’s approach to preemption, the court said that the case was governed by *Goldstein* and that neither the Copyright Clause nor the 1909 Act prevented California from enacting the statute.<sup>90</sup> In regard to the alleged conflict with the right to vend, the court held that an artist who creates a copyrighted work of fine art has, prior to its sale, title to that work and all the rights given by copyright. These rights did not include the right afforded by the CRRA which was seen “as an additional right similar to the protection afforded by California’s anti-pirating statute upheld in *Goldstein*.”<sup>91</sup> In passing the CRRA, as when it enacted the anti-piracy statute, California had acted in an area left unattended by Congress. The fact that this additional right could not be waived or transferred did not

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within California. 1978 WL 980, at \*4; Emley, *supra* note 32, at 259 – 60. The 1909 Act applied because the claim arose before January 1, 1978, the effective date of the 1976 Act. 1978 WL 980, at \*3. The 1976 Act does not apply to causes of action arising from undertakings commenced before January 1, 1978. 17 U.S.C. § 301(b)(2).

88. Morseburg, 621 F.2d at 975.

89. 1978 WL 980, at \*2. See Emley, *supra* note 32, at 260. The district court also suggested that the CRRA would not be preempted under the Copyright Act of 1976, stating “it appears that the Resale Royalties Act is not preempted by the Revision Act of 1976.” 1978 WL 980, at \*3; Emley, *supra* note 32, at 260.

90. Morseburg, 621 F.2d. at 977.

91. *Id.*

limit any right created by federal law. Moreover, the court said that the California statute did not impair the artist's "'exclusive right to transfer the title for consideration to others' because 'it merely create[d] a right *in personam* against a seller of a 'work of fine art.'"<sup>92</sup> In short, the CRRA did not prevent the creator from vending his or her work.

In regard to the first sale doctrine the court concluded that section 27 of the Copyright Act of 1909 did not, by implication, preclude states from passing resale royalty legislation because it did not "technically speaking" restrict the transfer of works of art.<sup>93</sup> It explained that the CRRA did not restrict transfer because no lien attached to the art object and the buyer was not secondarily liable for the royalty. In addition, the fact that resale might create a liability to the artist and simultaneously be the "exercise of a right guaranteed by the Copyright Act," did not make the artist's right to the royalty a legal restraint on the dealer's right to sell the work.<sup>94</sup> In short, the statute was not preempted by the Copyright Act of 1909 because imposing the royalty did not impermissibly restrict the owner's right to resell the work.

However, the Ninth Circuit acknowledged that imposing the royalty could influence behavior by purchasers of fine art who later considered selling their works, but that these possibilities—a longer holding period to defer the sale until greater appreciation in its value and the impact on the volume of business in a particular art market—did not prevent the court from concluding that "the 1909 Copyright Act has not occupied the area with which we are concerned and the California Act is not in conflict with it." It said that "the two laws function harmoniously rather than discordantly."<sup>95</sup> The Copyright Act was not hostile to the state's resale royalty.<sup>96</sup> As noted earlier, the Ninth Circuit was explicit that it was not considering whether the CRRA might be preempted under section 301 of the then recently enacted Copyright Act of 1976.<sup>97</sup>

About thirty years later, a California federal district court held in *Baby Moose Drawings, Inc. v. Dean Valentine* in 2011, that the CRRA was not preempted by copyright law.<sup>98</sup> The court relied on the House Judiciary

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92. *Id.*

93. *Id.*

94. *Id.* at 977 – 78.

95. *Id.* at 978. *See also* Register's 1992 Report, *supra* note 7, at 81 – 83.

96. *Morseburg*, 621 F.2d at 978.

97. *Id.* at 975; *see also supra* note 87. The transaction at issue took place prior to the enactment of the 1976 Act. Register's Update, *supra* note 1, at 21. The court also found that the CRRA did not violate the contracts or due process clauses of the Constitution. 621 F.2d at 979 – 80.

98. No. 2:11-cv-00697-JHN-JCGx, 2011 U.S. Dist. LEXIS 72583 (C.D. Cal. Apr. 1, 2011) [hereinafter "Baby Moose"].

Committee Report on the enactment of the Visual Artists Rights Act of 1990 to find that “Congress clearly intended for the Royalty Act to withstand preemption by the Copyright Act,” noting that the Committee understood that the Copyright Act “will not preempt a cause of action for . . . a right to a resale royalty” under the CRRA.<sup>99</sup> However, neither the CRRA nor *Baby Moose* fared well in three related actions which were filed in the U.S. District Court for the Central District of California in 2011. The cases are *Estate of Graham v. Sotheby’s Inc.*, *The Sam Francis Foundation v. Christie’s, Inc.* and *The Sam Francis Foundation v. eBay Inc.* In all three cases, the plaintiffs alleged that the defendants—two auction houses and an online retailer—failed to honor their obligations under the CRRA.<sup>100</sup>

The efforts of these several defendants to have the statute struck down were partially successful. Since the CRRA regulated transactions taking place outside California as well as in-state sales, the U.S. District Court for the Central District of California held the entire statute unconstitutional for violating the Dormant Commerce Clause.<sup>101</sup> *Baby Moose* was distinguished as not being relevant to the Dormant Commerce Clause challenge.<sup>102</sup> The Ninth Circuit, in an *en banc* ruling, affirmed the lower court’s decision striking down the sections of the CRRA regulating out-of-state sales, but held that the sections of the statute regulating sales within California were severable.<sup>103</sup> This brought the CRRA back to life in California to the extent it regulated sellers residing in the state or sales taking place in the state. After the Supreme Court declined to review the Ninth Circuit’s ruling,<sup>104</sup> the case was remanded to the district court where the defendants made their arguments as to whether the remaining parts of

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99. *Id.* at \*9-\*10 (citation omitted); Register’s Update, *supra* note 1, at 22 & n.147. A resale royalty provision was removed by Congress from the version of the bill that became the Visual Artist’s Rights Act of 1990. Register’s Update, *supra* note 1, at 7.

100. The three cases were consolidated in one action, with the defendants moving to dismiss the complaints on several grounds including violation of the commerce clause, unlawful taking of private property, and federal preemption. Case Summary, *Estate of Robert Graham v. Sotheby’s, IFAR (International Foundation for Art Research, May 27, 2016* (discussing *Sam Francis Foundation et al. v. Christies, Inc.*, 784 F.3d 1320 (9th Cir. 2015)).

101. *Estate of Graham v. Sotheby’s, Inc.*, 860 F. Supp. 2d 1117, 1126 (C.D. Cal. 2012).

102. *Id.* at 1122 n.4; Register’s Update, *supra* note 1, at 21 – 22.

103. *Sam Francis Foundation v. Christie’s*, 784 F.3d 1320, 1323-26 (9th Cir. 2015) (*en banc*). The trial court held that the provisions regulating sales out of state could not be severed. *See also* Gonzalo Zeballos, *supra* note 17. Dennis Cohen, *Ninth Circuit Draws Fine Line Around Fine Art Resale Royalties*, IP INTELLIGENCE (May 12, 2015).

104. *Sam Francis Foundation v. Christie’s*, 136 S. Ct. 795 (2016); Brian Boucher, *Supreme Court Declines to Hear Artists’ Resale Royalty Suit – Who Wins?*, ART WORLD (Jan. 12, 2016). *See generally* Register’s Update, *supra* note 1, at 21 – 22.

the statute were preempted under section 301 of the Copyright Act or the Supremacy Clause.<sup>105</sup>

On remand, the U.S. District Court for the Central District of California held in *Estate of Graham v. Sotheby's Inc.* that recent decisions of the U.S. Supreme Court and the Ninth Circuit dealing with first sale “have so eroded *Morseburg* that it no longer represents a binding interpretation of the first sale doctrine and the CRRA.”<sup>106</sup> The district court ultimately held that the CRRA was preempted because it conflicted with the first sale doctrine codified in section 109 of the Copyright Act, and also because the artists’ claims for unpaid royalties under the CRRA were independently preempted under the Copyright Act’s preemption provision, section 301, because they were not qualitatively different from garden variety copyright claims.<sup>107</sup> The next two parts of this article focus on whether that federal district court got it right. Part Four explains that notwithstanding *Morseburg*, the CRRA is preempted under conflict preemption analysis, and Part Five explains why the CRRA is subject to express preemption under section 301.

### V. *Morseburg* and Conflict Preemption Redux

Is the Ninth Circuit’s conflict preemption analysis in *Morseburg* still good? Assuming that the *Estate of Graham* decision is reviewed by the U.S. Court of Appeals for the Ninth Circuit, can it justify overruling the Ninth Circuit panel which decided *Morseburg* in 1980? Yes; things have changed since 1980.

#### A. The Law of the Circuit

There is a rule of appellate procedure called the law of the circuit doctrine which decrees that the decision of a three judge panel of the circuit is the decision of that circuit; another three-judge panel of the circuit should be reluctant to overrule it.<sup>108</sup> “[T]he *same issue* presented in a *later case in the same court* should lead to the *same result*.”<sup>109</sup> This rule exists in the federal system to ensure consistency within a circuit. When one panel speaks on a matter of law, subsequent panels should conform so litigants do not have to confront contrary legal interpretations within the same circuit.

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105. Eric Hiatt, Baker & Hostetler, VALIDITY OF CALIFORNIA RESALE ROYALTY ACT FACES ANOTHER COURT CHALLENGE, AIPLA NEWSSTAND (Feb. 26, 2016); Howard B. Abrams, 1 The Law of Copyright § 5:188 (2015).

106. 2016 WL 1464229, at \*6 (C.D. Cal. 2016).

107. *Id.* at \*9.

108. LaShawn v. Barry, 87 F.3d 1389, 1395 (D.C. Cir. 1996) (describing how one circuit panel should be reluctant to overrule another circuit panel’s decision).

109. *Id.* at 1393 (emphasis in the original).

A later panel can express disagreement with the reasoning of the earlier decision, but should nevertheless go along with that earlier interpretation.<sup>110</sup> As stated by the D.C. Circuit, “[w]ere matters otherwise, the finality of our appellate decisions would yield to constant conflicts within the circuit.”<sup>111</sup>

This doctrine explains why the district court’s opinion in *Estate of Graham* devotes a hefty amount of effort explaining that the Ninth Circuit’s reasoning in *Morseburg v. Balyon* is no longer binding nor persuasive.<sup>112</sup> The doctrine also explains why the district court concluded that the CRRRA was preempted under section 301(a) of the Copyright Act, whether or not *Morseburg* is still binding in the Ninth Circuit.<sup>113</sup> The district court stated that its conclusion about the *Morseburg* decision was “consistent with settled law [in the Ninth Circuit] permitting district courts and three-judge panels to disregard circuit precedent that is irreconcilable with later decisions of either the Supreme Court or the Ninth Circuit sitting *en banc*.”<sup>114</sup> The court devoted several paragraphs to discussing a relatively recent Ninth Circuit *en banc* ruling in which the court told a three-judge panel that it should not have felt bound by an earlier Ninth Circuit holding because of two intervening U.S. Supreme Court decisions.<sup>115</sup> The district court went on to say that *Morseburg* had been undercut by the Supreme Court’s intervening first sale precedent “in more obvious ways,” noting that the *Morseburg* panel barely mentioned the purpose of the first sale doctrine and the principle that copyright holders cannot use their rights to fix resale prices downstream.<sup>116</sup>

Accordingly, the ability of the district court in *Estate of Graham* to escape the *Kirtsaeng* ruling depends upon the strength of its conflict preemption analysis showing that the Ninth Circuit’s 1980 analysis of the CRRRA, first sale and the right to vend is no longer good law due to the Supreme Court’s *Quality King* and *Kirtsaeng* decisions. As discussed below, much of the conflict preemption analysis in *Estate of Graham* is

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110. J. Robert Brown, Jr., “*Conflict Minerals, the DC Circuit, and the SEC: The Law of the Circuit Doctrine*,” THE RACE TO THE BOTTOM (Aug. 6, 2014), <http://www.theracetothetbottom.org/home/conflict-minerals-the-dc-circuit-and-the-sec-the-law-of-the.html>.

111. LaShawn, 87 F.3d at 1395.

112. 2016 WL 1464229, at \*6 - \*8.

113. *Id.* at \*8 - \*11.

114. *Id.* at \*7 (citing *Miller v. Gammie*, 335 F.3d 889, 900 (9th Cir. 2003)).

115. *Id.* (discussing *Miller v. Gammie*, 335 F.3d 889 (9th Cir. 2003), in which the court, *en banc*, told a three judge panel that it should not have been bound by the 1989 ruling in *Babcock v. Taylor* due to decisions by the U.S. Supreme Court in 1993 and 1997).

116. *Id.* at \*8. The district court reiterated its “law of the circuit” analysis and discussion when it later denied plaintiffs’ motion to alter or amend the judgment pursuant to Rule 59(e) of the Federal Rules of Civil Procedure. 2016 WL 4136540 (C.D. Cal. 2016). The court said it would prefer to follow *Morseburg* in order to be more respectful of Ninth Circuit authority, but it had a fundamental duty to follow *Miller* and Supreme Court precedent. *Id.* at \*1.

solid but the court may have relied too heavily on the U.S. Supreme Court's first sale decisions, which were concerned primarily with the unauthorized importation of copyrighted goods and the gray market.<sup>117</sup> The plaintiffs in those cases wanted to block the resale of copyrighted goods completely while the artist plaintiffs seeking to enforce the CRRA are enthusiastic about the resale of their copyrighted works of visual art. They only want their resale royalties. *Quality King* and *Kirtsaeng* are persuasive authority but not directly on point.

### B. The Impact of the Supreme Court's First Sale Decisions

The most important section of the district court's opinion in the *Estate of Graham* preemption ruling is the discussion of the Supreme Court's decisions on the first sale doctrine which, according to the court, teach that the "doctrine does not simply create a void to be filled by state regulations" and have "so eroded *Morseburg* that it no longer represents a binding interpretation of the first sale doctrine and the CRRA."<sup>118</sup> Accordingly, the CRRA conflicts with the first sale doctrine and should be preempted.

In *Estate of Graham* the court was correct to acknowledge that first sale as codified in section 109(a) of the Copyright Act of 1976 is the same as the first sale doctrine that Congress had codified in section 27 of the Copyright Act of 1909.<sup>119</sup> It then explained that the Supreme Court has discussed the first sale doctrine several times since *Morseburg* was decided in 1980 and these rulings, *Quality King* in 1998 and *Kirtsaeng* in 2013, undermine the Ninth Circuit's conclusion that the CRRA and first sale function harmoniously. The essence of the court's analysis is that the CRRA is not a valid regulation because the Copyright Act is hostile to a royalty scheme.<sup>120</sup> The situation is no longer analogous to what was at issue in *Goldstein* when Congress had not extended protection to sound recordings, leaving the area unattended. The Court stated in *Goldstein* that "a conflict could develop if a State attempted to protect that which Congress intended to be free from restraint"<sup>121</sup> and it is now clear that the CRRA is encroaching on "subject matter Congress expressly addressed in § 109(a)."<sup>122</sup> The court is saying, in essence, that the Supreme Court made this interpretation of section 109 clear in 1998 and again in 2013.

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117. See *infra* notes 127 to 151 and accompanying text.

118. 2016 WL 1464229, at \*8.

119. *Id.*

120. *Id.* at \*6 - \*7. Cf. *Morseburg*, 621 F.2d at 978.

121. *Goldstein*, 412 U.S. at 559.

122. 2016 WL 1464229, at \*6.

Arguably, the silence of the Copyright Act and its legislative history regarding *droit de suite* allows state regulation of resale royalty,<sup>123</sup> but the current act was passed in 1976, decades before the Supreme Court's statements about first sale regulation in *Quality King* and *Kirtsaeng*. These rulings show that "the doctrine embodies a delicate distribution of rights between copyright holders and downstream resellers, 'leaving buyers of goods free to compete with each other [in the secondary market].'"<sup>124</sup> Although the CRRA does not, technically, restrict transfers of art,<sup>125</sup> the Ninth Circuit's opinion in the *Sam Francis Foundation* Dormant Commerce Clause case concluded, contrary to *Morseburg*, that the CRRA regulates commercial transactions between resellers and buyers and restricts conduct among private parties.<sup>126</sup> The conflict preemption argument against the CRRA is that the statute regulates an area that is already regulated by Congress; sections 106(3) and 109(a) of the Copyright Act combine to give purchasers of copyrighted art works the right to resell those objects without any limits on alienation while the CRRA impermissibly restricts downstream transactions.<sup>127</sup>

The district court's discussion of the Supreme Court's first sale decisions and how the CRRA restricts the transfer of art works<sup>128</sup> is convincing but perhaps overstates the sweep of these first sale holdings. The *Quality King* and *Kirtsaeng* cases involved efforts by copyright owners to block the resale in the United States of their copyrighted works which had been acquired by the defendant resellers overseas. Both cases required the Court to interpret and apply not only sections 106(3) and 109(a) but also section 602(a)(1) which deals with the importation of copyrighted materials.

L'Anza, the plaintiff in *Quality King*, made hair care products in the United States for sale domestically and abroad. These products had copyrighted labels. Its distributor in the United Kingdom sold products to a distributor in Malta. These goods reentered the U.S. market without L'Anza's permission, and were resold by unauthorized dealers in the United States who had purchased the goods at discounted prices from *Quality King*.<sup>129</sup> L'Anza contended that these resales violated its exclusive

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123. Cf. Gordon Katz, *supra* note 20, at 219 – 20.

124. 2016 WL 1464229, at \*6 (citing *Quality King* and *Kirtsaeng*).

125. *Id.* at \*6.

126. *Id.* at \*7 (citing and quoting *Sam Francis Foundation*, 784 F.3d at 1324 & n.1). Cf. *Morseburg*, 621 F.2d at 978.

127. 2016 WL 1464229, at \*7. The royalty undermines first sale, a doctrine which rests on the fundamental principle of free alienation of property, by keeping buyers from ever acquiring unencumbered title to works of art. Register's Update, *supra* note 1, at 58.

128. *Id.*, at \*6 - \*8.

129. *Quality King*, 523 U.S. at 138 – 40.

import/distribution rights under section 602(a)(1); but Quality King's first sale defense was successful.<sup>130</sup> The question presented was "whether the right granted by § 602(a) is also limited by §§ 107 through 120. More narrowly, the question is whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported goods."<sup>131</sup> The Court answered both questions affirmatively. Where the copyrighted work is lawfully made in the United States for export, and is subject to a valid first sale, its subsequent re-importation is permissible under section 109 and is not prohibited by section 602(a)(1). That section provides that in some circumstances importation violates the exclusive right to distribute copies under 106(3), and section 106(3) is in turn limited by sections 107 to 122, including first sale in section 109.<sup>132</sup>

The plaintiff in *Kirtsaeng*, the book publisher John Wiley & Sons, also alleged that its import/distribution rights under 602(a)(1) were violated by defendant Kirtsaeng's purchase in Asia for subsequent resale in the U.S. of copyrighted textbooks that Wiley published in Asia and distributed in Asia. Kirtsaeng's resales in the U.S. of textbooks that he had purchased on the open market in Asia were at prices well below those set by Wiley for the same textbooks that it made and published domestically.<sup>133</sup> The Court considered "whether the 'first sale' doctrine applies to protect the buyer or other lawful owner of a copy (of a copyrighted work) lawfully manufactured abroad," and whether that buyer can "bring that copy into the United States (and sell it or give it away) without obtaining permission to do so from the copyright owner[.]"<sup>134</sup> The Court answered this question affirmatively as in *L'Anza*. Here again, the plaintiff wanted to block importation of the copyrighted works and the defendant's first sale defense was successful.<sup>135</sup>

The Supreme Court stated in these decisions that the first sale doctrine provides "once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."<sup>136</sup> This doctrine has created secondary markets by "leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods."<sup>137</sup> It shifts market power away from the copyright holder toward competition and is to the "advantage of the

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130. *Id.* at 152. See also Craig Joyce et al., *supra* note 36, at 523 – 24.

131. *Quality King*, 523 U.S. at 138.

132. Craig Joyce et al., *supra* note 36, at 523 – 24.

133. *Kirtsaeng* 133 S. Ct. at 1356 – 57.

134. *Id.* at 1355.

135. *Id.* at 1355 – 56.

136. *Quality King*, 523 U.S. at 152.

137. *Kirtsaeng*, 133 S. Ct. at 1363.

consumer.”<sup>138</sup> The Court characterized section 109(a) as having a broad reach, and that it should not be read in a cramped manner.<sup>139</sup> First sale, as codified in section 109(a), means that buyers of copyrighted works “are free to dispose of [them] as they wish.”<sup>140</sup> Subsequent rulings have said that this freedom includes the right to resell the goods for whatever price the buyer deems appropriate, without regard to the wishes of the copyright holder.<sup>141</sup> The law is at odds with these principles because it gives California artists an advantage not enjoyed by other artists, and it disadvantages California art dealers against those outside the state. Copyright owners cannot use their rights to fix resale prices in downstream markets.<sup>142</sup>

Based on these recent statements about the first sale doctrine, it is no longer appropriate to analogize the CRRA to the state record piracy law in *Goldstein* as the Ninth Circuit panel did in *Morseburg* in 1980. The district court in *Estate of Graham* said that this takes *Goldstein* out of the way<sup>143</sup> and enabled it to state that *Morseburg*’s analysis of CRRA’s impact on first sale was flawed. It concluded the CRRA was at odds with the first sale doctrine because it impermissibly restricted downstream transactions between resellers and buyers of art and not just post-sale income.<sup>144</sup> In essence, it is appropriate to extrapolate from the Supreme Court’s statements about first sale in *Quality King* and *Kirtsaeng* to conclude that the CRRA regulates an area that is protected by the Copyright Act — a purchaser’s rights in the copies he or she has acquired—and thereby it “encroaches on a subject matter Congress expressly addressed in § 109(a).”<sup>145</sup> The district court concluded its conflict preemption analysis by stating that

it is a fundamental tenet of federalism that a conflict between Congress and a state legislature is resolved in favor of Congress. U.S. Const., Art. VI, cl. 2. Because the CRRA disrupts Congress’s efforts to balance the interests of copyright holders and downstream consumers, it must be preempted.<sup>146</sup>

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138. *Id.*

139. *Quality King*, 523 U.S. at 152.

140. *Kirtsaeng*, 133 S. Ct. at 1355.

141. *Omega S.A.*, 776 F.3d at 695.

142. *Id.*

143. 2016 WL 1464229, at \*6.

144. *Id.* at \*7 (citing *Sam Francis Foundation*, 784 F.3d at 1324 & 1334).

145. *Id.* at \*6.

146. *Id.* at \*8.

There is a counter argument to the district court's broad application of the Supreme Court's first sale decisions: *Quality King* and *Kirtsaeng* are not on point because both cases are really about parallel importation or the so-called gray market. There are price differentials domestically and abroad for certain goods which are sometimes great enough to permit entrepreneurs to purchase goods overseas, import them, sell them here for less than the current domestic price, and still make a profit.<sup>147</sup> It was in the context of this trade issue that the Court had to construe sections 602(a)(1), 106(3) and 109(a)(1) in both *Quality King* and *Kirtsaeng*. The plaintiffs in these cases—the copyright owners—wanted to charge different prices for copies of their works in different geographic regions and they also wanted to completely block the defendants from importing these goods into the United States for resale.<sup>148</sup>

In contrast, the plaintiffs in *Estate of Graham* are not attempting to use the CRRA to completely block sales of their copyrighted works of fine art, let alone block importation or to even fix prices in downstream markets. The artists are fine with resales of their art work. The California statute requires defendants to take certain steps when they sell an artist's work, but those steps do not prevent the auction houses and dealers from reselling or otherwise disposing of those copyrighted goods.<sup>149</sup> These several steps may have undermined the CRRA for purposes of the Dormant Commerce Clause analysis by the Ninth Circuit in the *Sam Francis Foundation* ruling,<sup>150</sup> but it does not follow automatically that the CRRA does more than regulate sale proceeds and post-sale income when it is applied solely to California transactions.<sup>151</sup> These steps do not fix prices in downstream markets for works of visual art. The CRRA might cause some auction houses and collectors to leave California to avoid the burdens the statute imposes on them to collect resale royalties,<sup>152</sup> but this is not an issue of copyright infringement or copyright policy. In short, the Supreme Court's statements about first sale in *Quality King* and *Kirtsaeng* are not directly on point in regard to the alleged tensions between the CRRA and the first sale doctrine.

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147. Craig Joyce et al., *supra* note 36, at 522.

148. *Kirtsaeng*, 133 S. Ct. at 1374 (Ginsburg, R., dissenting).

149. *Cf.* *Estate of Graham*, 2016 WL 1464229, at \*6.

150. 784 F.3d at 1324.

151. *Cf.* 784 F.3d at 1334 (Berzon, M., concurring).

152. *Cf.* *Estate of Graham*, 2016 WL 1464229, at \*7.

## VI. Express Preemption Under Section 301(a) of the Copyright Act

Section 301(a) of the Copyright Act worked a dramatic change in U.S. copyright law by “creating a single system of federal protection for all works of authorship, published or unpublished.”<sup>153</sup> It provides that any state law claim, whether based on common law or statute, is preempted if: (1) it creates “legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified in section 106;” and (2) such rights are claimed in “works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright.”<sup>154</sup> The two criteria for preemption concern the nature of the right being asserted and the nature of the work in which that right is claimed; these criteria must coalesce.<sup>155</sup> On the other hand, section 301(b) makes clear that the states may protect rights and interests that are not equivalent to those protected by copyright as well as afford equivalent protection to non-copyrightable subject matter.<sup>156</sup>

Section 301 reflects a clear congressional intent to preempt and abolish any rights under the common law or statutes of a state that are equivalent to any of the exclusive rights that copyright owners enjoy and that extend to works coming within the scope of copyright.<sup>157</sup> “The declaration . . . in section 301 is intended to be stated in the clearest and most unequivocal language possible, so as to foreclose any conceivable misinterpretation of its unqualified intention that Congress shall act preemptively, and to avoid the development of any vague borderline areas between State and Federal protection.”<sup>158</sup> Unfortunately, section 301 has not turned out to be a model of clear, comprehensible drafting,<sup>159</sup> and the courts have been grappling with its application since the late 1970s.

There is consensus that determining the scope of preemption under section 301 involves two inquiries: what constitutes copyrightable subject

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153. David Shipley, *Three Strikes and They're Out at the Old Ball Game: Preemption of Performers' Rights of Publicity Under the Copyright Act of 1976*, 20 ARIZ. STATE L. REV. 369, 374 (1988) [hereinafter “*Three Strikes*”].

154. 17 U.S.C. § 301(a).

155. *Three Strikes*, *supra* note 153, at 374 – 75.

156. 17 U.S.C. § 301(b).

157. H. REP. *supra* note 64, at 131.

158. *Id.*

159. Craig Joyce et al., *supra* note 36, at 965. This casebook has a summary of section 301's tortured legislative history including the debates within the House Judiciary Committee over what to do about misappropriation and other common law claims with copyright like characteristics. *Id.* at 965 – 68.

matter; and what rights are equivalent to those granted by copyright.<sup>160</sup> As noted earlier, the subject matter of an artist's claim for royalties under the CRRA is a work of visual art. Paintings, sculptural works, numbered prints or photographs, and glass works all come within the subject matter of copyright as pictorial, graphic and sculptural works under section 102(a)(5).<sup>161</sup> That cannot be disputed.<sup>162</sup> Accordingly, the critical preemption issue for the CRRA is whether the artist's claim under the California statute is equivalent to a copyright infringement claim. The term "equivalent" is not defined, the legislative history does not help, and the courts have relied on their own resources in determining whether a state law protects equivalent rights.<sup>163</sup>

The artist's basic claim under the CRRA is that a defendant, such as an auction house, sold her work of art without paying her the required royalty. The defendant will deny liability by raising the first sale doctrine under section 109(a); the plaintiff artist sold the work to us, and we are free to resell that object without restraint. The auction house defendant will contend that the artist's claim for a resale royalty is nothing more than a garden-variety infringement claim based on a violation of the artist's distribution right under section 106(3), that the CRRA enlarged the distribution right, and that the artist's right to control further distribution of the object ended when she sold it to the auction house in the first place. The conduct that triggers the claim under the CRRA is the distribution of the work. And thus, it is equivalent to a claim for violation of the distribution right and is preempted.<sup>164</sup>

The issue of equivalency has troubled courts since the current Copyright Act went into effect on January 1, 1978. The prevailing approach is the "extra element test."<sup>165</sup> The test reasons that if state law causes of action contain elements that are different in kind from copyright

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160. Paul Goldstein, *Preempted State Doctrines, Involuntary Transfers and Compulsory Licenses: Testing the Limits of Copyright*, 24 UCLA L. REV. 1107, 1112 (1977); *Three Strikes*, *supra* note 153, at 375.

161. See *supra* notes 64 to 68 and accompanying text. See also 17 U.S.C. § 101 (the definition of pictorial, graphic and sculptural works).

162. Estate of Graham, 2016 WL 14624229, at \*9 (any claims under the CRRA fall within the subject matter of copyright).

163. Craig Joyce et al., *supra* note 36, at 974 n.6.

164. Estate of Graham, 2016 WL 14624229, at \*9 (citing and quoting from 2 Nimmer on Copyright § 8C.04[A][1]).

165. Craig Joyce et al., *supra* note 36, at 974 n.6. A claim is not equivalent to any of the exclusive rights if it includes an 'extra element' instead of or in addition to acts of reproduction, performance, distribution or display which alters the nature of the action so that it is qualitatively different from an infringement claim. *Computer Associates International v. Altai, Inc.*, 982 F.2d 693, 716 (2nd Cir. 1992).

infringement, the cause of action is not preempted.<sup>166</sup> As for the issue of equivalency, it can be resolved by determining whether the state law may be abridged by an act which, in and of itself, would infringe one of the exclusive rights; if the mere act of reproduction, adaptation, distribution, performance or display triggers a violation of the state law doctrine, then it is equivalent. On the other hand, if the plaintiff has to show an additional element, such as palming off or the existence of a contract or trust relationship and a breach of duty, then the state law claim is not equivalent, and therefore escapes preemption.<sup>167</sup>

The artist's position is that the CRRA creates an additional right, not afforded by the Copyright Act, to 'downstream' royalties, and thus it is not equivalent. It is unrelated to copyright and pertains instead to the sale of tangible art objects, and copyright ownership is distinct from that material art object as provided in section 202 of the Act. Therefore, this state-created right does not supplant any rights in section 106.<sup>168</sup> However, a state law claim can be preempted even if it is not coextensive with copyright. The House Report states that preemption occurs "even though the scope of exclusive rights given under the [Copyright Act] is narrower than the scope of [rights under state law]."<sup>169</sup>

There are several arguments in support of equivalence. The Ninth Circuit in the *Sam Francis Foundation* decision said that the CRRA regulates transactions, not the income of resellers.<sup>170</sup> The CRRA grants the artist an economic right that increases the economic incentive to produce creative works by augmenting the copyright monopoly and simultaneously inhibiting the purchaser's rights under the first sale doctrine. It impacts downstream activities by enhancing the artist's distribution right and inhibiting the purchaser's right to make further distributions. As Nimmer points out, whether broader or narrower, if the same conduct triggers rights or immunities under both federal and state law, then that conduct is equivalent.<sup>171</sup> The challengers can also assert that the CRRA tries to achieve what section 301 proscribes and thus should be preempted.<sup>172</sup> After all, the Register of Copyrights acknowledged that implementation of resale royalty in the Copyright Act requires modification of first sale and

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166. H.R. REP. at 132.

167. *Computer Associates*, 982 F.2d at 716-17; *Del Madera Props. v. Rhodes & Gardner*, 820 F.2d 973, 977 (9th Cir. 1987); *Katz, Dochtermann & Epstein, Inc. v. Home Box Office*, No. 97 CIV. 7763(TPG), 50 U.S.P.Q.2d (BNA) 1957, 1959 (S.D. Ill 1999).

168. *Gordon Katz*, *supra* note 20, at 219 – 20.

169. H.R. REP. at 131; *Estate of Graham*, 2016 WL 1464229, at \*9.

170. 784 F.3d at 1324 – 26.

171. 2 Nimmer on Copyright § 8C.04[A][1].

172. *Gordon Katz*, *supra* note 20, at 220.

would alter well-established principles of free alienability in our property jurisprudence.<sup>173</sup> If enactment of resale royalty legislation, such as an amendment to the Copyright Act, would require modification of first-sale and our traditions of free alienability of property, then the California statute's imposition of the resale royalty is equivalent to the distribution right. Moreover, the sponsor of the CRRA acknowledged that it might be preempted by the Copyright Act.<sup>174</sup>

In addition, as discussed in connection with conflict preemption under the Supremacy Clause,<sup>175</sup> recent Supreme Court decisions hold that the first sale doctrine as codified in section 109(a), not only governs, but also forbids, efforts to control downstream sales.<sup>176</sup> The Ninth Circuit has stated that “[a]pplication of the first sale doctrine . . . conclusively reaffirms that copyright holders cannot use their rights to fix resale prices in the downstream market.”<sup>177</sup> The CRRA is a state law that controls downstream sales and thereby creates a right that Congress declined to create. It should be preempted under section 301(a) because it inhibits distribution of copyrighted paintings and sculptural works and is thus equivalent to the distribution right, one of the exclusive rights under section 106.<sup>178</sup> Section 301's legislative history shows that Congress intended for the section to preempt state laws which expand laws that Congress did not wish to see expanded<sup>179</sup> and congressional silence on the issue of resale royalty legislation should not be regarded as leaving this area open to state legislation, as was the situation with sound recordings and the state record piracy legislation at issue in *Goldstein*.<sup>180</sup>

## VII. Other Preemption Issues and Arguments

### A. Preemption Issues Were Acknowledged by the Register of Copyrights

Notwithstanding the *Morseburg* decision, it is important to note that the Register's 1992 study of *droit de suite* recommended that “any resale royalty law in the United States should be at the federal level” given the potential problems of preemption.<sup>181</sup> Moreover, the Register stated that

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173. Register's 1992 Report, *supra* note 7, at 148 & 134.

174. G.L. Francione, *supra* note 13, at 106 – 07 n.6.

175. See *supra* notes 127 to 145 and accompanying text.

176. See *Omega S.A. v. Costco Wholesale Corp.*, 776 F.3d 692, 695 (9th Cir. 2015).

177. *Id.*

178. Estate of Graham, 2016 WL 1464229, at \*9 - \*10; 2 Nimmer on Copyright § 8C.04[A][1].

179. H. REP. at 131.

180. Gordon Katz, *supra* note 20, at 220.

181. Register's 1992 Report, *supra* note 7, at 86.

“[i]mplementation of the royalty would require qualification of the first sale doctrine.”<sup>182</sup> It also said the question of preemption was not settled, that cases and commentary since *Morseburg* suggested a different result under the 1976 Copyright Act,<sup>183</sup> and that this had chipped away at *Morseburg*’s foundation.<sup>184</sup> The Register’s study discussed a California decision citing Nimmer’s opinion that resale royalty was preempted under the 1976 Copyright Act<sup>185</sup> as well as a federal district court decision holding that a Pennsylvania statute regulating motion picture licensing was preempted.<sup>186</sup> That court had acknowledged *Morseburg* but concluded, after noting the changes made by the Copyright Act of 1976, that although the Pennsylvania law did not establish a competing copyright system or an equivalent right, it substantially restricted conditions under which a copyright holder could distribute and license his or her own work and thereby interfered with the copyright holder’s control over the sale or the commercial use of their work.<sup>187</sup>

Even though the Pennsylvania law regulating motion picture licensing was upheld by the U.S. Court of Appeals for the Third Circuit,<sup>188</sup> these observations and statements by the Register of Copyrights undermine the Ninth Circuit’s statement in *Morseburg* that the CRRA and copyright law function harmoniously. The tension between the CRRA and the first sale doctrine is also acknowledged in the Register’s 2013 study of resale royalties which says that Congress could conclude that a variety of considerations justify qualification of the first sale doctrine so as to provide a resale royalty that benefits artists, and also acknowledges that there would not be a constitutional bar to the passage of such a statute.<sup>189</sup> After all, Congress has broad authority to establish the nation’s intellectual property policy,<sup>190</sup> the courts are deferential to how the legislature exercises this authority,<sup>191</sup> and this authority would certainly include<sup>192</sup> placing limits

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182. Register’s 1992 Report, *supra* note 7, at 148. The Register also asked whether Congress would want to qualify first sale and “abandon well-settled principles of free alienability in Anglo-American property jurisprudence.” *Id.* at 134.

183. *Id.* at 77. This report cites and quotes from Nimmer who said that the CRRA would be preempted under section 301 of the Copyright Act of 1976. *Id.* at 79 – 80.

184. *Id.* at 83.

185. *Id.* at 83 – 84 (citing and discussing *Robert H. Jacobs, Inc. v. Westoaks Realtors, Inc.*, 159 Cal. App. 3d 637 (1984)).

186. *Id.* at 84 – 85 (citing and discussing *Associated Film Distributed Corp. v. Thornburgh*, 520 F. Supp. 971 (E.D. Pa. 1981)).

187. 520 F. Supp. at 992 – 94.

188. 800 F.2d 369, 376 (3rd Cir. 1986).

189. Register’s Update, *supra* note 1, at 59.

190. *Eldred v. Ashcroft*, 537 U.S. 186, 222 (2003).

191. *Id.* at 204.

on the first sale doctrine as already done in regard to the rental, lease or lending of phonorecords and computer programs.<sup>193</sup>

In any event, the several statements by the Register of Copyrights that the enactment of an amendment to our copyright statute to provide a resale royalty for works of visual art would also require an amendment to the first-sale doctrine are strong evidence that the CRRA cannot function harmoniously with our well-established first-sale doctrine jurisprudence, and that the CRRA should be preempted.

#### **B. The CRRA Is Analogous to a Tax on the Proceeds of a Sale.**

Another argument to counter the CRRA's alleged encroachment on section 109(a), which was alluded to in *Morseburg*,<sup>194</sup> is that the CRRA does not regulate resale of art, but only the proceeds of the resales. No lien attaches to the object, the buyer of the art object is not secondarily liable for the royalty, and the law does not impermissibly restrict the owner's right to sell the painting.<sup>195</sup> In essence, it does not restrict the secondary market for art in a meaningful way. It activates only after a resale is completed, and is akin to a tax on the revenue derived from the art purchaser's profitable resale of the work of fine art.

Taxes, which a state or a municipality impose for particular transactions or for the purchase and sale of particular commodities, are charges that purchasers and sellers of goods routinely pay, collect and distribute.<sup>196</sup> Such taxes are not seen as restraints on alienation. The CRRA is similar to a tax. Accordingly, it does not impinge the first sale doctrine because it does not effectively limit a seller's options. It is no more a restraint on alienation than a local ordinance providing that a certain percentage of the proceeds on the sale of real estate in the community be set aside, held in trust and ultimately used for purchasing property for conservation purposes.<sup>197</sup>

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192. "[I]t is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors . . . in order to give the public appropriate access to their work product." *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

193. 17 U.S.C. § 109(b)(1)(A) (2008).

194. 621 F.2d at 977 – 78.

195. *Id.*

196. Register's Update, *supra* note 1, at 58.

197. *See, e.g.*, Block Island Land Trust, TOWN OF NEW SHOREHAM, <http://www.new-shoreham.com/displayboards.cfm?id=14> (last visited Oct. 9, 2016). The Block Island Land Trust was established by legislation passed by the Rhode Island General Assembly in the 1980s. The trust, which acquires and preserves open space on Block Island for conservation, recreation and aquifer protection, is funded by a 3% fee on the transfer of real property on Block Island. The Land Trust is administered by five unpaid Trustees who are elected for staggered four-year terms. In 2007 Block Island reached a milestone of 43% preserved open space.

One problem with this analogy is that taxes are collected and used for public purposes, not as additional compensation for the creator/original owner of the real or personal property that is being resold. In addition, the majority in the *Sam Francis Foundation* decision explicitly rejected *Morseburg's* statement that the CRRA did not restrict the transfer of art<sup>198</sup> by holding that it “facially regulate[s] . . . commercial transaction[s] between resellers and buyers” and that it restricts “conduct among private parties.”<sup>199</sup> It regulates downstream sales of art in conflict with the first sale doctrine.<sup>200</sup> Moreover, by imposing a royalty right on the artist and the purchaser/reseller that cannot be waived, the CRRA arguably restricts what section 109(a) meant to be unfettered. It is counter to well-settled principles of free alienability in our property jurisprudence.<sup>201</sup> The 5% royalty prevents the reseller from obtaining the full value of the art object in the secondary market, and serves as a disincentive for art investors to resell their art.<sup>202</sup> This also undercuts copyright’s first sale doctrine.<sup>203</sup>

### C. States Can Regulate the Distribution of the Tangible Work

Section 202 of the Copyright Act<sup>204</sup> codifies the important distinction between ownership of copyright and ownership of the material object; the purchaser of a work of art acquires the object but not, absent a written transfer agreement, the copyright in that work. Thus, *droit de suite* pertains to the sale of the art object, not to copyright. Accordingly, California’s CRRA does not supplement any of the rights specified in the Copyright Act.<sup>205</sup> The problem with this argument is that *droit de suite* is an economic right that benefits the artist and that supplements and extends an artist’s distribution right in section 106(3). “Civil-law jurists . . . classify the *droit de suite* as an economic right, conceptually no different from copyrighting.”<sup>206</sup> It augments the copyright monopoly and is at odds with the balance between creators, copyright owners and the general public that Congress has attempted to achieve in the Copyright Act.<sup>207</sup>

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198. 621 F.2d at 978.

199. 784 F.3d at 1323-24 & n.1.

200. Estate of Graham, 2016 WL 1464229, at \*7.

201. Register’s Update, *supra* note 1, at 59 (quoting Register’s 1992 Report, *supra* note 7, at 134).

202. *Id.*

203. *Id.*; see also Nimmer on Copyright, § 8C.04[A]{1}; WILLIAM PATRY, PATRY ON COPYRIGHT § 18.52 (2016).

204. See *supra* notes 50 to 53.

205. Gordon Katz, *supra* note 20, at 219 – 20.

206. G.L. Francione, *supra* note 13, at 109 – 10.

207. Gordon Katz, *supra* note 20, at 219 – 20.

On the other hand, there are several decisions involving unsuccessful preemption challenges to state laws regulating the distribution of motion pictures, in which courts rejected the argument that a state's trade regulation affecting a copyright owner's monetary return is invalidated by the Copyright Act.<sup>208</sup> The state statutes at issue in these cases prohibited the practice of blind bidding for motion pictures, and set up procedures for the open and orderly licensing of movies in the respective states.<sup>209</sup> These laws were challenged by the movie distributors—the copyright owners—on multiple grounds including preemption under the Supremacy Clause and 17 U.S.C. § 301.<sup>210</sup> In essence, the laws were a sufficient burden on the copyright owners' rights to require preemption.<sup>211</sup> However, the courts stated that there is no “authority for the argument that state trade regulation which affects distribution procedures and, indirectly, monetary returns from copyrighted property is invalidated implicitly or explicitly by the terms of the Copyright Act.”<sup>212</sup>

One of the courts explained that the statute did not deprive copyright owners of their rights to prohibit reproduction, performance, distribution or display of their works. “Indeed, by providing procedures for the licensing of a film, the Act recognizes *sub silentio* the right of the copyright owner to exhibit the motion picture and to grant an exclusive or restrictive license to others to exhibit it.”<sup>213</sup> This court emphasized that the Supreme Court had long recognized the distinction between the bundle of rights which make up copyright and the property produced and marketed by virtue of the copyright,<sup>214</sup> saying that the Supreme Court had rejected the notion that a copyrighted work is not subject to state regulation of the manner in which it is marketed.<sup>215</sup> This court and the Supreme Court also rejected claims that the exclusive right to distribute includes the right to distribute in the manner most desirable to the copyright owner.<sup>216</sup> In short, the authority of

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208. *Associated Film Distribution Corp. v. Thornburgh*, 800 F.2d 369, 376 (3rd Cir. 1986); *Allied Artists Pictures Corp. v. Rhodes*, 496 F. Supp. 408, 441 (S.D. Ohio 1980), *aff'd* 679 F.2d 656 (6th Cir. 1982).

209. Blind bidding describes the licensing of a movie to a theater owner without the owner first viewing the movie. The practice has been controversial since the 1940s, was subject to consent decrees, and caused Ohio and Pennsylvania to enact bills prohibiting the practice, restricting other licensing practices, and setting up procedures for open and orderly licensing of movies for exhibition in those states. *Allied Artists*, 496 F. Supp. at 412 – 13; *see also* *Associated Film Distribution Corp.*, 800 F.2d at 370 – 71.

210. *Allied Artists*, 496 F. Supp. at 441; *Associated Film Distribution Corp.*, 800 F.2d at 376.

211. *Associated Film Distribution Corp.*, 800 F.2d at 376.

212. *Id.* (citing and quoting from *Allied Pictures*, 679 F.2d at 662-63).

213. *Allied Artists*, 496 F. Supp. at 443.

214. *Id.* at 446 (citing *Fox Film v. Doyal*, 286 U.S. 123, 130 (1932)).

215. *Fox Film*, 286 U.S. at 128.

216. *Watson v. Buck*, 313 U.S. 387 (1941).

the states to regulate market practices dealing with copyrighted subject matter is well established.<sup>217</sup>

These statements about state authority to regulate market practices involving copyrightable subject matter seem to support California's authority to enact the CRRA. After all, the obligation imposed on California art dealers in regard to resale royalties seems insignificant compared to Ohio's and Pennsylvania's regulation of the distribution of copyrighted motion pictures to movie theaters in those states. Those statutes placed limitations on the copyright owners' distribution rights with respect to their movies and they were held not to be preempted. The CRRA does not limit the copyright owner's distribution right but it does have an impact on the purchaser's right under the first sale doctrine.

On the other hand, it is important to recognize that the movie distributors who challenged the anti-blind bidding statutes in Ohio and Pennsylvania had not sold their copyrighted works to the theaters. Instead, they were exercising their exclusive rights to control the distribution and public performance of their copyrighted works through rental and lease pursuant to sections 106(3) and 106(4) of the Copyright Act. The anti-blind bidding preemption decisions do not address the first sale doctrine. In short, the strong statements about state authority to regulate market practices seem to argue against preemption but the decisions in which these statements were made are not directly on point in regard to the preemption issues surrounding the CRRA.

#### **D. The Contract Analogy**

Defenders of the CRRA argue that since the first sale doctrine does not restrict a copyright holder's right to limit subsequent distribution of copies of her works by contract,<sup>218</sup> there should be no problem with state legislation imposing comparable limitations. L'Anza, the plaintiff in the *Quality King* case, relied on the terms of its contracts with domestic distributors to limit their sales to authorized resale outlets. It acknowledged that those distributors were the owners of the products purchased from it, and that unauthorized resale of those goods would constitute a breach of contract but not copyright infringement due to first sale.<sup>219</sup> If the copyright owner can impose limits by contract, why cannot the state legislate something as innocuous as a resale royalty?

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217. Allied Artists, 496 F. Supp. at 447.

218. United States v. Wise, 550 F.2d 1180, 1187 (9th Cir. 1977) (explaining that if a vendee breaches an agreement not to sell a copy, he may be liable for breach of contract but not copyright infringement).

219. Quality King, 523 U.S. at 143.

The response in *Estate of Graham* to this contention is that even though it is routine for copyright holders to exercise downstream control in exchange for a variety of contractual benefits to resellers,<sup>220</sup> a state law like CRRA, that modifies first sale, substantially upsets the bargaining positions of the parties by giving the copyright holder unprecedented market power. “Without § 109(a), a copyright holder would not need to bargain for downstream control: they would simply sue for copyright infringement as soon as their products entered secondary markets.” By shifting market power from the purchaser/reseller of the art object to the artist/copyright holder, the California statute thereby conflicts with first sale.<sup>221</sup> It is for Congress, not a state legislature, to alter the bargain and create an exception to first sale as it has with sound recordings and computer software.<sup>222</sup> The Copyright Office has acknowledged this by saying that implementation of a resale royalty would require qualification of first sale.<sup>223</sup>

#### E. *Baby Moose Drawings* and VARA’s Legislative History

*Baby Moose Drawings, Inc. v. Valentine* is a peculiar 2011 decision in which a federal judge remanded an artist’s CRRA claim for royalties to the Los Angeles County Superior Court on the ground that removal was improper because the federal court lacked subject matter jurisdiction.<sup>224</sup> The defendant, who had resold an artist’s works without paying the royalty, argued that the claim was completely preempted under section 301(a) for purposes of removal jurisdiction.<sup>225</sup> The trial court disagreed, holding that the 5% royalty was qualitatively different from the rights granted to copyright holders by section 106 of the Copyright Act<sup>226</sup> and cited a California Court of Appeals decision which held that a state law claim for royalties pursuant to a contract was not equivalent to any of the exclusive rights secured by copyright.<sup>227</sup> In ordering remand the court also stated that the legislative history of the Visual Artists Rights Act of 1990 (“VARA”) made it clear that Congress intended the CRRA to withstand preemption.<sup>228</sup>

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220. *Estate of Graham*, 2016 WL 1464229, at \*4.

221. *Id.*

222. Register’s Update, *supra* note 1, at 58 – 59 (citing 17 U.S.C. § 109(b)(1)(A)).

223. Register’s 1992 Report, *supra* note 7, at 148. *See also supra* notes 180 to 192 and accompanying text.

224. *Baby Moose*, at \*1.

225. *Id.* at \*3.

226. *Id.*

227. *Id.* (citing *Durgom v. Janowiak*, 87 Cal. Rptr.2d 619 (Cal. App. 4th Dist. 1999)).

228. *Id.* (citing Committee on the Judiciary Report on Amendments to the Copyright Act, H.R. REP. 514 (1990)).

The court in the *Estate of Graham* preemption ruling indicated that *Baby Moose* could apply to both express and conflict preemption, and the court declined to follow it.<sup>229</sup> First, the court said *Baby Moose* was not controlling because complete preemption was narrower than conflict or express preemption.<sup>230</sup> Second, the court disregarded the *Baby Moose* court's conclusion that the right granted by the CRRA was an extra element qualitatively different from those granted in section 106<sup>231</sup> and explained that the *Baby Moose* court had not considered the CRRA's relationship to the first sale doctrine.<sup>232</sup> And third, the court criticized the *Baby Moose* court's reliance on a statement in VARA's legislative history to the effect that additions to the Copyright Act would "not preempt a cause of action for misattribution of a reproduction of a work of visual art or for a violation of a right to a resale royalty."<sup>233</sup> The *Estate of Graham* court said that VARA's legislative history could not control a question of preemption under section 301(a) because VARA itself added section 301(f) to the Copyright Act: a separate preemption section applicable to moral rights claims under state law. It also said that a post-enactment interpretation of a statute is not a legitimate tool of statutory interpretation.<sup>234</sup> Accordingly, the court concluded that VARA's legislative history does not preclude preemption of the CRRA under section 301(a), whether or not *Morseburg* is still good law in the Ninth Circuit.<sup>235</sup>

The court in *Estate of Graham* was correct in finding *Baby Moose* unpersuasive. It is best treated as a claim for royalties under state law that was improperly removed to federal court on the basis of the federal defense of preemption. The well-pleaded complaint rule provides that federal question 'arising under' jurisdiction exists only when the federal question appears on the face of the plaintiff's well pleaded complaint; the plaintiff is the master of the complaint, and here the artist agent's claim alleged only a state claim.<sup>236</sup> In addition, the *Baby Moose* court's extra-element discussion of the CRRA, holding that a CRRA claim was qualitatively different from rights granted by copyright, relied upon a state court decision in a suit for royalties pursuant to a contract. That kind of claim is

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229. *Estate of Graham*, 2016 WL 1464229, at \*10.

230. *Id.* The *Baby Moose* court mentioned the well-established principle that removal to federal court cannot be based on a federal defense, including the defense of preemption. 21011 WL 1258529, at \*2 n.2 citing *Caterpillar*, 482 U.S. at 392.

231. *Estate of Graham*, 2016 WL 1464229, at \*10 (citing *Baby Moose*, 2011 U.S. Dist. LEXIS 72583, at \*3 & n. 4).

232. *Id.* (citing *Baby Moose* at \*3).

233. *Id.* (quoting H.R. REP. No. 101-514, at 20 (1990) (emphasis added by the court)).

234. *Id.* (quoting *Bruesewitz v. Wyeth LLC*, 562 U.S. 223, 242 (2011)).

235. *Id.* at \*11.

236. *Id.* at \*2 (C.D. Cal. Apr. 1, 2011).

not equivalent to a claim to resale royalties based on the CRRA.<sup>237</sup> Moreover, the *Baby Moose* ruling made too much out of one sentence in VARA's legislative history from 1990 regarding Congress's intent to have the CRRA escape preemption under section 301 of the Copyright Act of 1976.<sup>238</sup> VARA added a specific preemption provision in section 301(f) and made no changes to section 301(a).

#### F. State Moral Rights Laws and Preemption

Article 6bis of the Berne Convention requires member nations to protect a creator's moral rights of attribution and integrity.<sup>239</sup> It states:

Independently of the author's economic rights and even after the transfer of said rights, the author shall have the right to claim authorship of the work and to object to any distortion, mutilation, or other modification of, or other derogatory action in relation to, the said work, which would be prejudicial to his honor or reputation.<sup>240</sup>

Under this article, an artist retains some authority over his works of visual art even after he sells them and even after the transfer of his copyright. The right of integrity enables the artist to object to distortions, mutilations or other modifications of her works, and the right of attribution enables the artist to claim authorship and stop others from being named as the creator.<sup>241</sup> These are seen as inalienable and natural rights that exist independently of the artist's copyright.<sup>242</sup> In a country where moral rights are recognized, an artist would be able to object to the purchaser of one of his works defacing or mutilating that painting or sculpture, even though he could not object to the purchaser reselling the work.<sup>243</sup>

The Visual Artists Rights Act of 1990, which added section 106A to the Copyright Act, recognized moral rights in the United States for the first time. It was enacted to bring our laws into compliance with Article 6bis.<sup>244</sup> It protects a select group of artists and narrowly defined works; in

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237. *Id.* at \*3 (citing *Durgom v. Janowiak*, 87 Cal Rptr. 2d 619 (Cal. App. 4th Dist. 1999)).

238. *Id.* at \*3.

239. *The Empty Promise*, *supra* note 3, at 987. These are the two most commonly recognized moral rights.

240. Berne Convention for the Protection of Literary and Artistic Works, art. 6bis, *adopted by the U.S.* Mar. 1, 1989, 102 Stat. 2853.

241. Craig Joyce et al., *supra* note 36, at 581.

242. *The Empty Promise*, *supra* note 3, at 987.

243. Craig Joyce et al., *supra* note 36 at 580 – 81. Moreover, if the artist transferred his copyright to the purchaser, then the buyer would be free to reproduce and adapt the work of visual art. *Id.*

244. *Id.*

particular, works of visual art.<sup>245</sup> Prior to the passage of VARA, several states, including California, enacted legislation that extended moral rights to visual artists and works of visual art.<sup>246</sup> The California Art Preservation Act prohibits the physical defacement, mutilation, or destruction of a work of fine art, except by the artist who owns and possesses that work of fine art.<sup>247</sup> Does this state law conflict with federal copyright policy? Is it subject to conflict preemption or express preemption under section 301?<sup>248</sup> In a way, this is a moot question because VARA amended section 301 to add a section that preempts state law claims which are equivalent to moral rights claims under section 106A.<sup>249</sup> If the California Art Preservation Act might have withstood a preemption challenge prior to the enactment of VARA, then perhaps the CRRA, by analogy, should withstand that challenge as well. If the limitations or restrictions on an art purchaser's ownership of a work of art which are imposed by the California Art Preservation Act would not be preempted, then the restriction on ownership imposed by the CRRA should not be preempted either.

Some of the commentators who discussed this preemption issue concluded that a moral rights claim under a statute such as the California Art Preservation Act would not have been preempted under section 301(a) because moral rights are qualitatively different from copyright in that they do not protect an economic interest.<sup>250</sup> The counter argument asks whether the activity giving rise to the moral rights claim is the same activity that gives rise to a copyright violation even if intent or gross negligence has to be shown to succeed on the state law claim.<sup>251</sup> For example, the preemption argument would be that an artist's claim under the California statute to prevent someone from altering his painting or sculpture would be equivalent to a claim for violation of the right to prepare derivative works based on the copyrighted work. If the owner of an art object also owned the

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245. VARA protects "a painting, drawing, print or sculpture existing in a single copy, in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author, or, in the case of a sculpture, in multiple cast, carved or fabricated sculptures of 200 or fewer that are consecutively numbered by the author and bear the signature or other identifying mark of the author." 17 U.S.C. § 101. Photographs are protected too if certain conditions are met but not movies, books, magazines, advertising and promotional materials, and works for hire. *Id.*; *The Empty Promise*, *supra* note 3, at 990.

246. Craig Joyce et al., *supra* note 36, at 583 – 85.

247. Cal. Civ. Code § 987(c)(1).

248. *See generally* G.L. Francione, *supra* note 13, at 105.

249. 17 U.S.C. § 301(f).

250. Karen Gantz, *Protecting Artists' Moral Rights: A Critique of the California Art Preservation Act as a Model for Statutory Reform*, 49 GEO. WASH. L. REV. 873, 897 – 98 (1981); Barbara Hoffman, *The California Art Preservation Act*, 5 Art & L. 53, 56 (1980); Gordon Katz, *supra* note 20, at 217.

251. G. L. Francione, *supra* note 13, at 130 – 31.

copyright, he would defend the claim by raising his ownership of this right.<sup>252</sup> The artist's reply is that having to show that the defendant is 'intentionally defacing or mutilating' the work is qualitatively different from showing an unauthorized alteration or modification in violation of the right to prepare derivative works. That is an additional element that is not part of a copyright infringement action.<sup>253</sup> In short, a strong argument was made that a state law moral rights claim under the California Art Preservation Act would have withstood a preemption challenge under section 301.

On the other hand, there are variations on this hypothetical artist versus art purchaser dispute, when the purchaser holds the copyright, which give rise to serious conflict preemption issues: the artist's assertion of a moral rights claim under the California statute runs directly into the purchaser's exercise of one or more of the exclusive rights.<sup>254</sup> For example, an art collector purchases a sculptor's unique statue and also acquires copyright in that work, he then authorizes a company to make derivative works, specifically reduced scale plastic reproductions of the statue. These reproductions are offered for sale and the artist claims that this alteration of the statue is actionable under the art preservation statute. The state law claim conflicts directly with the copyright owner's rights and should be preempted under conflict preemption analysis.<sup>255</sup>

In summary, some state moral rights claims might have withstood an express preemption challenge under section 301. However, a state moral rights claim might have conflicted directly with the rights of the copyright owner in situations when the artist transferred his or her copyright to the purchaser of the work, and would have thus have been subject to conflict preemption. Similarly, although claims under the CRRA might not be equivalent to a copyright infringement claim for purposes of section 301, such claims arguably conflict directly with the art purchaser's exercise of rights under the first sale doctrine.

### G. Patent Exhaustion

The first sale doctrine is well established in our patent law jurisprudence and it is similar to copyright law's first sale doctrine. In 1853, the Supreme Court stated that "when the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent]

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252. *Id.* at 131.

253. *Cf. id.* at 138 (concluding that the California Art Preservation Act would survive an express preemption challenge under section 301(a)).

254. *See id.* at 140 – 42.

255. *Id.* at 141 – 42.

monopoly.”<sup>256</sup> Also known as “exhaustion,” the patent law version of first sale makes clear that “once lawfully made and sold, there is no restriction on [its] use to be implied for the [patentee’s] benefit.”<sup>257</sup> The inventor’s/patentee’s sale of the patented article exhausts the monopoly in that article so that the inventor/patentee may no longer, by virtue of the patent, control the use or disposition of the article.<sup>258</sup> In a nutshell, “the initial authorized sale of a patented item terminates all patent rights to that item.”<sup>259</sup> This doctrine has been applied broadly by the Supreme Court. “The theory is that the patentee, by selling the patented article, has surrendered his right to control the use and sale of the particular article. The buyer may use the article and may sell it to another buyer, who likewise may use and sell the article without infringement.”<sup>260</sup> First sale does not, however, allow the buyer to make or use additional embodiments of the invention; the widget can be resold but the buyer cannot make more widgets.<sup>261</sup>

Would a state statute modifying the patent law exhaustion doctrine in roughly the same way the CRRA applies to the resale of fine art be subject to preemption? For instance, imagine Michigan enacting legislation aimed at helping the automobile industry, specifying that a patentee was to receive a 5% royalty each time certain patented articles were resold. This statute would probably not withstand a challenge because of the Supreme Court’s 1989 decision in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*<sup>262</sup> The Court held unanimously that a Florida statute prohibiting the use of a direct molding process to duplicate unpatented boat hulls conflicted with the “strong federal policy favoring free competition in ideas which do not merit patent protection” and was therefore preempted by the Supremacy Clause of the Constitution.<sup>263</sup> The opinion repeated the principle announced in *Goldstein* that the states have power to adopt rules that promote intellectual creation within their own domains,<sup>264</sup> and that this power extended to the subject matter of patents so long as the rule did not impermissibly interfere with the federal scheme.<sup>265</sup> However, the Florida

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256. *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1853).

257. *Adams v. Burke*, 84 U.S. 453, 457 (1873).

258. *U.S. v. Univis Lens Co.*, 316 U.S. 241, 250 (1942).

259. *Quanta Computer, Inc. v. LG Elec’s, Inc.*, 553 U.S. 617, 625 (2008).

260. STEPHEN MCJOHN, *INTELLECTUAL PROPERTY: EXAMPLES & EXPLANATIONS* 347 (5th Ed. 2015).

261. *Id.*

262. 489 U.S. 141 (1989).

263. *Id.* at 168 (quoting *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969)).

264. “The patent and copyright clauses do not, by their own force or by negative implication, deprive the states of” their power to adopt such rules. *Id.* at 165

265. *Id.*

statute went beyond the scope of protection traditionally available under unfair competition doctrine and trade secret law, and restricted the public's ability to exploit unpatented designs in general circulation, therefore upsetting the competitive balance in patent law.<sup>266</sup>

Although this hypothetical state statute providing a patented device resale royalty does not restrict the public's ability to exploit an article unprotected by a patent or copyright like the statute in *Bonito Boats* or the unfair competition laws at issue in *Sears* and *Compco*, it does fly in the face of patent law's first sale doctrine which stands for the principle that "[t]he authorized sale of an article that substantially embodies a patent exhausts a patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article."<sup>267</sup> The hypothetical state law—by imposing the royalty—would have an impact on the postsale use of the patented articles. It gives the patentee a proprietary right that he otherwise would not enjoy and should be preempted under the Supremacy Clause.<sup>268</sup>

The likelihood that this hypothetical state patent royalty statute would be preempted because it conflicts with patent law's first sale doctrine provides another argument for the preemption of the CRRA because the CRRA conflicts with copyright's first sale doctrine. This is due in part to the fact that the U.S. Supreme Court turned to patent law for guidance several times when ruling on major copyright law issues. For instance, in *Sony Corp. of America v. Universal City Studios, Inc.* the Court turned to the Patent Act's "staple article or commodity of commerce" principle in section 271, and its *Dawson Chemical Co. v. Rohm & Hass Co.* decision, discussing vicarious liability and contributory infringement in copyright law.<sup>269</sup> The Court said:

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266. *Id.* at 167; see generally *Rock the Boat*, *supra* note 84.

267. *Quanta Computer*, 533 U.S. 617, 638 (2008).

268. This result would be consistent with the Supreme Court's historic intellectual property jurisprudence that emphasizes the public purposes embodied in the Copyright and Patent Clause instead of focusing on the proprietary interests of copyright owners and patentees. *Cf.* David Shipley, *Congressional Authority Over Intellectual Property Policy After Eldred v. Ashcroft: Deference, Empty Limitations, and Risks to the Public Domain*, 70 ALBANY L. REV. 1255, 1257 (2007).

269. 464 U.S. 417, 440-41 (1984). In this portion of its *Sony* opinion the Supreme Court cited and quoted from 35 U.S.C. § 271(c) which provides that the sale of a "staple article or commodity of commerce suitable for substantial noninfringing use" is not contributory infringement. It also discussed in *Rohm & Hass* decision, 448 U.S. 176 (1990), and other cases which deny the patentee any right to control the distribution of unpatented articles unless they are unsuited for any commercial noninfringing use. *Id.* at 198. The Court explained in *Rohm & Hass* that unless a commodity "has no use except through practice of a patented method," the patentee has no right to claim that its distribution constitutes contributory infringement. *Id.* at 199.

We recognize there are substantial differences between the patent and copyright laws. But in both areas the contributory infringement doctrine is grounded on the recognition that adequate protection of a monopoly may require the courts to look beyond actual duplication of a device or publication to the products or activities that make such duplication possible. The staple item of commerce doctrine must strike a balance between a copyright holder's legitimate demand for effective – not merely symbolic—protection of the statutory monopoly, and the rights of others freely to engage in substantially unrelated areas of commerce.<sup>270</sup>

Similarly, in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, the Court turned to patent law to say that *Sony's* staple-article of commerce rule would not preclude liability where evidence showed statements and actions directed at promoting infringement:<sup>271</sup>

For the same reasons that *Sony* took the staple-article doctrine of patent law as a mode for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here, holding that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.<sup>272</sup>

The copyright law and patent law first sale doctrines are similar. Moreover, the U.S. Supreme Court has addressed the vitality and scope of both doctrines in recent decisions.<sup>273</sup> If a state law regulating postsale transactions involving patented articles would be preempted, there is a good argument that the CRRA should be preempted as well since it also regulates postsale transactions involving copyrighted works of fine art.

#### H. Critical Commentary

Several treatise writers have weighed in on the side of preemption of the CRRA. One scholar said that the conclusion in *Morseburg* that the

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270. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

271. 545 U.S. 913, 935 (2005).

272. *Id.* at 936 – 37.

273. *See, e.g.*, *Quality King Distribs. Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998); *Quanta Computer, Inc. v. LG Elec's, Inc.*, 553 U.S. 617 (2008); *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013). *See also*, *Lexmark Int'l, Inc. v. Impression Prods., Inc.*, 816 F.3d 721 (Fed. Cir. 2016), *petition for cert. filed*, 84 USLW 3563 (Mar. 21, 2016) (the petition is asking the U.S. Supreme Court to consider the impact of the *Kirtsaeng* and *Quanta Computer* decisions on issues of patent exhaustion).

royalty did not conflict with first sale was dubious.<sup>274</sup> Another author noted that since first sale is considered to exhaust the copyright owner's distribution right with respect to the art object that was sold, the resale royalty therefore grants a distribution-type right to the artist.<sup>275</sup> Nimmer's treatise says that the federal policy contained in the first sale doctrine permits uninhibited resale of art following the initial sale, and that this policy cannot be countered by a contrary state law, even when the state law's restraint is simply a royalty instead of a prohibition.<sup>276</sup> Finally, another commentator wrote that *droit de suite* should be preempted because it attempts to supplement the rights granted by copyright.<sup>277</sup>

The district court opinion in the *Estate of Graham* decision stated, in support of its preemption ruling that the leading treatises agree that the royalty obligation "acts as a disincentive for art investors to resell their art, thereby restricting the secondary markets for fine art in California. That result undercuts the purpose of the first sale doctrine and inhibits the uniformity Congress sought to achieve by enacting the Copyright Act."<sup>278</sup> The court also stated that it was "of the same view as these prominent treatises."<sup>279</sup>

### VIII. Conclusion

"As some seventy countries have recognized, adoption of a statutory resale royalty right is one way to level the playing field [for artists], and the [Copyright] office accordingly supports Congress's consideration of such legislation."<sup>280</sup> It is readily acknowledged that amending the Copyright Act to provide for a resale royalty would require modification to the first sale doctrine.<sup>281</sup> There is no constitutional bar to such action because, as a general matter, Congress has broad authority to determine the nation's intellectual property policy in ways that, in the judgment of the legislative branch, will serve the ends of the Copyright Clause.<sup>282</sup> The courts defer

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274. HOWARD B. ABRAMS, 1 THE LAW OF COPYRIGHT § 5:188 (2015).

275. WILLIAM PATRY, ET AL., LATMAN'S THE COPYRIGHT LAW 89 n. 47 (6th ed. 1986).

276. 2 Nimmer on Copyright § 8-381.

277. Gordon Katz, *supra* note 20, at 220 (1978). Even the legislator who sponsored the CRRA said it might be preempted under the Copyright Act. G.L. Francione, *supra* note 13, at 106–07 n.6.

278. 2016 WL 1464229, at \*5 (citing and discussing Nimmer on Copyright and Patry on Copyright).

279. *Id.* at \*6.

280. Register's Update, *supra* note 1, at 65.

281. See *supra* notes 183 to 195 and accompanying text.

282. *Eldred v. Ashcroft*, 537 U.S. 186, 222 (2003); *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

substantially to the will of Congress,<sup>283</sup> and this would certainly extend to placing new limitations on the first sale doctrine comparable to those previously imposed.

The Register of Copyright's endorsement *droit de suite*, while acknowledging that Congress would have to alter the first sale doctrine in order to provide for a resale royalty, provides a strong argument that California's resale royalty legislation is at odds with the Copyright Act and should be preempted. In addition, notwithstanding the Ninth Circuit's 1980 decision in *Morseburg v. Balyon*, which upheld the CRRA against a preemption challenge, this statute is subject to conflict preemption because it is at odds with Copyright's well-established first sale doctrine. The Ninth Circuit should no longer feel bound by *Morseburg* due in large part to the U.S. Supreme Court's *Quality King* and *Kirtsaeng* decisions on first sale which were issued in 1998 and 2013 respectively. Moreover, whether or not *Morseburg* is still good law in the Ninth Circuit, the CRRA is subject to express preemption under section 301(a) of the Copyright Act because it grants a right in copyrightable subject matter that is equivalent to the distribution right—one of the exclusive rights granted in section 106—and it simultaneously limits the first sale doctrine codified in section 109(a). Either way, the Ninth Circuit should conclude that the CRRA is preempted.

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283. See, e.g., *Golan v. Holder*, 132 S. Ct. 873, 889 (2012).