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## Intellectual Property

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# INTELLECTUAL PROPERTY

## I. *RUSSELL V. PRICE*: A LIMITATION ON THE USE OF DERIVATIVE WORKS

### A. INTRODUCTION

In *Russell v. Price*,<sup>1</sup> the Ninth Circuit held that the unauthorized use of a derivative film, on which a copyright had expired, constituted actionable infringement of a copyright on an underlying stageplay under the Copyright Act of 1909 (the 1909 Act).<sup>2</sup>

In 1913 George Bernard Shaw acquired a copyright on his stageplay "Pygmalion." In 1941 the renewal copyright was obtained and, originally due to expire after a term of 28 years,<sup>3</sup> was

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1. 612 F.2d 1123 (9th Cir. Dec. 1979) (per Goodwin, J.; the other panel members were Hug, J., and Thompson, D.J., sitting by designation), *cert. denied sub nom. Drebin v. Russell*, 48 U.S.L.W. 3750 (May 20, 1980).

2. Copyright Act of Mar. 4, 1909, ch. 320, 35 Stat. 1075 (codified at 17 U.S.C. §§ 1-216 (1976)) (amended 1976) [hereinafter cited as the 1909 Act]. In 1976, the 1909 Act was superseded in its entirety by 17 U.S.C. §§ 101-810 (1976) [hereinafter cited as the 1976 Act], fully effective as of January 1, 1978. As *Russell v. Price*, 612 F.2d 1123 (9th Cir. 1979) arose under the 1909 Act, all references are to that version of the statute, unless noted otherwise.

Derivative works were given explicit statutory protection for the first time in the 1909 Act. Originally enacted as § 6, the provision pertaining to derivative copyright was changed to § 7 by the Act of July 30, 1947, ch. 391, 61 Stat. 655 (codified at 17 U.S.C. § 7) (current version at 17 U.S.C. § 103 (1976)) [hereinafter cited as § 7]. Section 7 provided that:

Compilations or abridgements, adaptations, arrangements, dramatizations, translations, or other versions of works in the public domain or of copyrighted works when produced with the consent of the proprietor of the copyright in such works, or works republished with new matter, shall be regarded as new works subject to copyright under the provisions of this title; but the publication of any such new works shall not affect the force or validity of any subsisting copyright upon the matter employed or any part thereof, or be construed to imply an exclusive right to such use of the original works, or to secure or extend copyright in such original works.

3. Copyright Act of Mar. 4, 1909, ch. 320, § 23, 35 Stat. 1080 (codified at 17 U.S.C. § 24 (1976)) (amended 1976). Section 23 provided, in pertinent part:

The copyright secured by this title shall endure for twenty-

extended by a series of congressional acts, culminating in the Copyright Act of 1976 (the 1976 Act).<sup>4</sup> Shaw licensed the production of a motion picture version of the stageplay. The licensees produced and copyrighted a film, and in 1966 the film copyright was allowed to expire. Shaw died in 1950, and the plaintiffs, legatees under his will (except Janus Films, a licensee), became proprietors of the copyright.

In 1971, the proprietors of the stageplay copyright granted an exclusive license to Janus Films to distribute the film. In 1972 Janus learned that defendant was renting copies of the film, and after unsuccessfully pressing a claim for unfair competition in state court,<sup>5</sup> brought an action for copyright infringement in the federal district court.<sup>6</sup>

#### Relying on the recent Second Circuit decision in *Rohauer v.*

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eight years from the date of first publication [provided that the author or his statutory beneficiaries] shall be entitled to a renewal and extension of the copyright in such work for a further term of twenty-eight years when application for such renewal and extension shall have been made to the copyright office and duly registered therein one year prior to the expiration of the original term of the copyright: *And provided further*, That in default of the registration of such application for renewal and extension, the copyright in any work shall determine at the expiration of twenty-eight years from first publication.

Section 23 was codified at 17 U.S.C. § 24 (1976) (amended 1976) by the Act of July 30, 1947, ch. 391, 61 Stat. 659 [hereinafter cited as § 24].

The renewal system has been abandoned for copyrights arising on or after January 1, 1978, by the 1976 Act, and replaced with a single term copyright coupled with a provision for termination of transfers. 1976 Act, *supra* note 2, §§ 203, 302.

4. When efforts to revise the existing copyright law were undertaken, it was anticipated that the copyright term would be extended. To prevent unfair hardships to copyright owners whose term would have otherwise expired before the revisions would have been enacted, a series of bills were passed, each extending existing copyrights until the next such bill. When the 1976 Act, *supra* note 2, became effective, all became subject to § 304(b) thereof, which provides:

The duration of any copyright, the renewal term of which is subsisting at any time between December 31, 1976, and December 31, 1977, inclusive, or for which renewal registration is made between December 31, 1976, and December 31, 1977, inclusive, is extended to endure for a term of seventy-five years from the date copyright was originally secured.

5. *Janus Films, Inc. v. Budget Films, Inc.*, 57 Cal. App. 3d 490, 127 Cal. Rptr. 204 (1976). This case was ordered unpublished and is therefore of no force or effect.

6. *Russell v. Price*, 448 F. Supp. 303 (C.D. Cal. 1977).

*Killiam Shows, Inc.*,<sup>7</sup> defendant argued that a derivative copyright proprietor has a right to use the derivative work independently of any underlying copyright, and that this right enters the public domain with the expiration of the derivative copyright.<sup>8</sup>

The district court rejected defendant's interpretation of *Rohauer* on the ground that *Rohauer* turned on contractual provisions not present in *Russell*.<sup>9</sup> Relying on the fundamental rule of copyright law that the protection of a derivative copyright encompasses only the original contributions of the derivative work, the court reasoned that only original work enters the public domain when a derivative copyright expires.<sup>10</sup> Because exhibition of the film necessarily involved use of material from the underlying play, the court concluded that defendant's use thereof constituted an infringement of plaintiff's copyright.

Focusing on the factual differences between the cases, the Ninth Circuit upheld the district court's finding that *Rohauer* did not control the issues in *Russell*, and adopted the district court's analysis of the scope of derivative copyright protection.<sup>11</sup>

#### B. DERIVATIVE COPYRIGHT: AN INDEPENDENT PROPERTY INTEREST?

A fundamental issue underlying the controversy in *Russell* was whether the creator of a derivative work acquires a property interest independent of any copyright on underlying material which permits continued exploitation of the derivative work even after all licenses to use the underlying material have terminated. The majority of courts which have addressed this ques-

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7. 551 F.2d 484 (2d Cir.), cert. denied, 431 U.S. 949 (1977).

8. Defendant also contended that plaintiff's delay in instituting the infringement action engendered by the litigation in state court constituted laches, and that Janus Films lacked standing to bring the action. The district court rejected both of these arguments. *Russell v. Price*, 448 F. Supp. 303, 305 (C.D. Cal. 1977). On appeal, defendant repeated his laches argument, and also disputed the district court's treatment of the issues of damages and attorneys' fees. The Ninth Circuit affirmed the district court on all points. 612 F.2d at 1126, 1132. These defenses are beyond the scope of this Note and will not be given further consideration.

9. *Russell v. Price*, 448 F. Supp. 303, 305 (C.D. Cal. 1977).

10. *Id.* For a discussion of this rule, see 1 M. NIMMER, COPYRIGHT § 3.04 (1979).

11. 612 F.2d at 1128.

tion have concluded that no such property interest exists.<sup>12</sup> In essence, these courts have reasoned that because a derivative copyright protects only the original contributions of a creator, the fact that a derivative work has been copyrighted does not give rise to a right to use underlying material. Under this view, any right to use copyrighted underlying material must find its source in contractual arrangements between the parties.

In *Rohauer v. Killiam Shows, Inc.*,<sup>13</sup> however, Judge Friendly advanced a different rationale. The *Rohauer* court, in reaching the holding that the unlicensed use of the derivative work in issue there did not infringe an underlying copyright, relied in part on the view that once a derivative work is copyrighted, a property interest in the entire derivative work springs into existence, permitting use of that work without regard to the underlying copyright.<sup>14</sup>

In *Rohauer*, the author of the novel *Sons of the Sheik* licensed the exclusive right to make motion pictures based on the novel. Under the terms of the license, the author promised to renew her copyright on the novel, and to convey her motion picture rights for the renewal term to the original grantee or his assigns. The author died, however, before the end of the first term, and the renewal right devolved to her daughter as a statutory beneficiary under section 24 of the 1909 Act.<sup>15</sup> A motion picture was produced under the license, and a copyright was obtained. The copyright was renewed, and passed by successive as-

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12. *E.g.*, *Gilliam v. American Broadcasting Cos., Inc.*, 538 F.2d 14 (2d Cir. 1976); *G. Ricordi & Co. v. Paramount Pictures, Inc.*, 189 F.2d 469 (2d Cir.), *cert. denied*, 342 U.S. 849 (1951); *Fitch v. Shubert*, 20 F. Supp. 314 (S.D.N.Y. 1937).

13. 551 F.2d 484 (2d Cir. 1977), *cert. denied*, 431 U.S. 949 (1977).

14. *Id.* at 492. The view has been called the new property right theory. Professor Nimmer described this theory as follows:

[O]nce a derivative work is created pursuant to a valid license to use the underlying material, a new property right springs into existence with respect to the entire derivative work, so that even if the license is thereafter terminated the proprietor of the derivative work may nevertheless continue to use the material from the underlying work as contained in the derivative work.

1 M. NIMMER, *supra* note 10, § 3.07 at 3-23. The Second Circuit's reliance on the theory was not without precedent. *See Edmonds v. Stern*, 248 Fed. 897 (2d Cir. 1918); *Sunset Sec. Co. v. Coward McCann, Inc.*, 297 P.2d 137, 110 U.S.P.Q. 329 (Cal. 1956), *vacated*, 47 Cal. 2d 907, 306 P.2d 777 (1956).

15. 1909 Act, *supra* note 3.

signment to the defendant. The author's daughter renewed her copyright on the underlying novel, and assigned her interest therein to the plaintiff. When the defendant permitted exhibition of the film without the permission of the plaintiff, the plaintiff sued for copyright infringement.

Plaintiff argued that the license under which the film was created was terminated when the copyright on the novel was renewed, and that the unlicensed use of the film diminished the "force" of the underlying copyright within the meaning of section 7 of the 1909 Act.<sup>16</sup> Defendant countered that adequate "force" was given plaintiff's copyright if the creation of new derivative works was prevented, and that section 7 was not intended to forbid the continued use of a derivative work created under license from the underlying copyright proprietor, even if that license had lapsed.<sup>17</sup>

In holding for the defendant, the court confronted both the "force or validity" language of section 7 and the line of authority which held that the exercise of renewal rights by a statutory successor under section 24 created a new estate, free and clear of any first term licensing arrangements.<sup>18</sup> Focusing on slight changes made in the text of section 7 before it was enacted in its final form,<sup>19</sup> the court concluded that the force or validity clause was intended only to prevent the possibility of forfeiture of a copyright on underlying material as a result of improper publication by the proprietor of a derivative work.<sup>20</sup> The court avoided application of the new estate doctrine by distinguishing prior decisions interpreting the doctrine on the ground that

16. 551 F.2d at 488. The relevant portions of § 7 are set forth in *supra* note 2.

17. 551 F.2d at 488.

18. An exercise of renewal rights under § 24, *supra* note 3, has been traditionally viewed as creating a new estate, unrestricted by prior agreements. *See, e.g., Fox Films Corp. v. Knowles*, 261 U.S. 326 (1923). The new estate doctrine was significantly restricted by *Fred Fisher Music Co. v. M. Witmark & Sons*, 318 U.S. 643 (1943), which held that an author was bound by an assignment of his rights to the renewal term. But such an assignment is ineffective against the statutory beneficiaries under § 24 if the author fails to survive to the renewal term. *Miller Music Corp. v. Charles N. Daniels, Inc.*, 362 U.S. 373 (1960). By permitting the derivative copyright proprietor to prevail against the statutory beneficiary, the Second Circuit created a significant exception to the prevailing interpretation of § 24.

19. 551 F.2d at 488-89 (2d Cir. 1977). For a discussion of the legislative history on which the court relied, see text accompanying notes 31-35 *infra*.

20. *Id.* at 489-90.

none of those cases involved an attempt to assign derivative rights for both the first and renewal terms.<sup>21</sup> In light of this distinction,<sup>22</sup> and its interpretation of section 7, the court concluded that the continued use of underlying material, as contained in the derivative film, did not infringe the underlying copyright in the novel.<sup>23</sup>

### C. THE *Russell* Court's Analysis

The defendant in *Russell* argued that the *Rohauer* decision did not depend on the contractual provisions in issue in *Rohauer*, but could be asserted as an independent principle of copyright law.<sup>24</sup> In defendant's view, *Rohauer* stood for the simple proposition that, although new derivative works could not be created without a license, the use of underlying material, as contained in a derivative work, did not infringe on an underlying copyright. Consequently, defendant's argument continued, when the derivative copyright in *Russell* expired, the derivative copyright proprietor's right to use underlying material entered the public domain.

Focusing on the factual differences between the cases, the *Russell* court declined to adopt the extension of *Rohauer* urged on it by defendant. The defendant in *Rohauer* was both the assignee of a contract in which the author promised to convey the renewal term derivative rights in issue there, and the proprietor

21. *Id.* at 490-91.

22. In support of its analysis, the court noted what it felt was a disagreement among commentators, *id.* at 492-93, and the "equities [which] lie preponderantly in favor of the proprietor of the derivative copyright [who will] often have made contributions literary, musical and economic, as great or greater than the original author." *Id.* at 493. In the court's opinion Congress had these equities in mind when it drafted the 1976 Act, *supra* note 2. Sections 203(b)(1) and 304(c)(6)(A) of the 1976 Act provide:

A derivative work prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination but this privilege does not extend to the preparation after the termination of other derivative works based upon the copyrighted work covered by the terminated grant.

*Id.* at 494. The court's reliance on these provisions is questionable at best. Section 304(c)(3) of the 1976 Act expressly preserves the renewal term for the copyrights arising under the 1909 Act. In limiting the renewal rights of the statutory beneficiary, the court appears to have contradicted the clear thrust of § 304(c)(3).

23. *Id.* at 494.

24. Appellants' Opening Brief at 21, *Russell v. Price*, 612 F.2d 1123 (9th Cir. 1979), *cert. denied sub nom. Drebin v. Russell*, 48 U.S.L.W. 3750 (May 20, 1980).

of an unexpired derivative copyright. The *Russell* court reasoned, therefore, that *Rohauer* required a reconciliation of competing derivative and underlying copyright interests.<sup>25</sup> In contrast, the *Russell* defendant asserted neither a contractual interest, nor a right as the proprietor of a copyright, but simply claimed a naked right to use the film as a member of the public.

On the basis of these factual differences, the *Russell* court deemed an important policy consideration underpinning *Rohauer* to be inapplicable to *Russell*.<sup>26</sup> The *Rohauer* court, in reaching its conclusion, was motivated by a concern for the protection of the economic and artistic contributions of the derivative copyright proprietor.<sup>27</sup> The *Rohauer* court sought to avoid the forfeiture of these contributions by the somewhat fortuitous failure of the author to survive to the renewal term. Because the defendant in *Russell* was merely a member of the public who had made no contribution to the production of the derivative work, these concerns were absent.

Having found *Rohauer* inapplicable to *Russell*, the court resorted to the fundamental principle of copyright law that a derivative copyright protects only the original contributions of the creator of the derivative work.<sup>28</sup> Consequently, only the original work in the film entered the public domain on the expiration of the derivative copyright, and to the extent that exhibition of the film involved exhibition of material from the novel, defendant's unlicensed use thereof infringed plaintiff's copyright.<sup>29</sup>

#### D. CRITIQUE

The Ninth Circuit correctly declined to hold that underlying material contained in a copyrighted derivative work enters the public domain as a result of the expiration of the derivative copyright. The theory that the acquisition of a derivative copyright establishes an independent interest in the entire derivative work, approved of by the *Rohauer* court, rests on questionable grounds, even where asserted by the owner of a derivative copy-

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25. 612 F.2d at 1128.

26. *Id.* at 1127.

27. 551 F.2d at 493.

28. 612 F.2d at 1128.

29. *Id.* at 1128.



right.<sup>30</sup> The theory is even more troublesome when the interest in the derivative work is claimed by a member of the public, as was the defendant in *Russell*.

Arguably, the force or validity clause of section 7 was intended to prevent the precise result reached in *Rohauer*. As proposed in a preliminary version, section 7 qualified a derivative copyright by providing that "no such *copyright* shall affect the force or validity of any subsisting copyright on the matter employed . . . ."<sup>31</sup> As a result of testimony offered in congressional hearings on the section recounted in *Rohauer*,<sup>32</sup> the wording was changed to "the *publication* of any such new works shall not affect the force or validity of any subsisting copyright on the matter employed . . . ."<sup>33</sup> The drafters of section 7 were concerned with the possible impact of the publication of a derivative work on the copyrights on underlying material contained in the derivative work. Under the law of copyright, publication of a work with insufficient notice can result in a public dedication of that work.<sup>34</sup> It was feared that publication of a derivative work with legally inadequate notice might inadvertently extinguish the copyrights in underlying material. With this change to section 7 the drafters sought to minimize the potential forfeiture of underlying copyrights. But the very testimony on which the *Rohauer* court relied contained the statement that the modification was not meant to "change the intent of the section in any way."<sup>35</sup> Thus, although it is clear that the force or validity clause was concerned with the problem of publication with inadequate notice, it is not clear, as presumed in *Rohauer*, that the clause was intended to serve this purpose only. To the contrary, the plain import of the original phrasing suggests that Congress intended the clause to have a much broader effect. The legislative history of the force or validity clause lends more support to the view that any limitation introduced into the clause by the modi-

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30. The *Rohauer* opinion has been strongly criticized. See 1 M. Nimmer, *supra* note 10, § 3.07 [A]; Comment, *Derivative Copyright and the 1909 Act—New Clarity or Confusion?*, 44 BROOKLYN L. REV. 905 (1978).

31. THE COPYRIGHT BILL, S. 6330, H.R. 19853, 59th Cong., 1st Sess. § 6, May 31, 1906, in 1 LEGISLATIVE HISTORY OF THE 1909 ACT at 15 (E. Brylawski & A. Goldman eds. 1976) (emphasis added) [hereinafter cited as LEGISLATIVE HISTORY].

32. 551 F.2d at 489.

33. 5 LEGISLATIVE HISTORY, *supra* note 31, at 78 (emphasis added).

34. For a discussion of this principle, see 1 M. NIMMER, *supra* note 10, § 4.12 (1979).

35. *Id.* at 78.

fication was inadvertent than to the position taken in *Rohauer*.

Even assuming, however, that the *Rohauer* court was correct in its disposition of the force or validity clause, it does not follow that the court was thereby free to infer an independent interest in an entire derivative work. If the force or validity clause were stricken from section 7 altogether, the unlicensed use of a derivative work, to the extent that it contained copyrighted underlying material, would still appear to infringe on the various rights guaranteed an underlying copyright proprietor.<sup>36</sup> To reach its holding the *Rohauer* court apparently inferred that the drafters of section 7, in recognizing a derivative copyright, also intended to confer an independent interest in the entire derivative work. This inference clearly departs from the traditional rule of copyright law that a copyright protects only the original contributions of a creator.<sup>37</sup>

However section 7 is interpreted, it is clear that a primary objective of the drafters of the section was to avoid disruption of the existing copyright system.<sup>38</sup> To hold that underlying material contained in a derivative work falls into the public domain upon the expiration of a derivative copyright would clearly frustrate this objective. Where the creator of a derivative work has borrowed substantially from an underlying work, such a holding could have the practical effect of extinguishing the important right of a copyright proprietor to control the dissemination of copyrighted material in the media employed by the derivative work.<sup>39</sup> To protect this right, a licensor would be burdened with

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36. Copyright Act of Mar. 4, 1909, ch. 320, § 1, 35 Stat. 1075 (current version at 17 U.S.C. § 106 (1976)). Section 1 of the 1909 Act confers on the proprietor of a copyright a number of exclusive rights, including, for example, the exclusive right to exhibit a work publicly. With or without the force or validity clause, nothing in the language of § 7 of the 1909 Act suggests that it was intended to override the rights granted in § 1.

37. See note 12 *supra* and accompanying text.

38. In addition to the force or validity clause, § 7 of the 1909 Act, *supra* note 2, provided that procurement of a derivative copyright did not imply an exclusive right to use an original work, nor could it be used to secure or extend a copyright on an original work. This series of limitations, grafted on to the portion of the section recognizing derivative copyright, makes clear the Congressional desire to minimize the disruption of the subsisting copyright law. For a discussion of Congressional intent in enacting § 7, see Comment, *Derivative Copyright and the 1909 Act—New Clarity or Confusion?*, *supra* note 30, at 918-21.

39. Under *Rohauer v. Killiam Shows, Inc.*, 551 F.2d 484 (2d Cir.), *cert. denied*, 431 U.S. 949 (1977), the proprietor of an underlying copyright would retain the right to prevent the creation of new derivative works based on the underlying material. *Id.* at 492.

the task of either overseeing the renewal of the derivative copyright, or attempting to limit the scope of the derivative copyright with contractual provisions. In either case, the force or validity clause would be effectively rendered superfluous.

Another argument against permitting the unlicensed use of underlying material is the absence of any contribution by members of the public to the creation of the derivative work. Unlike the proprietor of a derivative copyright, who often makes a substantial investment in the creation or purchase of a derivative work, a member of the public generally makes only a relatively modest expenditure in acquiring a copy. Consequently, an important policy consideration underpinning *Rohauer* is absent when a member of the public asserts a right to use underlying material.

In cases arising under the 1976 Act, the argument against extending *Rohauer* is even stronger. Section 103 of the 1976 Act provides that "[t]he copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work . . . ."<sup>40</sup> To whatever extent the defendant's argument in *Russell* had validity under the 1909 Act, it would have been foreclosed by this provision, had the case arisen under the 1976 Act.

Beyond its application to persons claiming a right to use a derivative work merely as members of the public, the *Russell* opinion has important implications for the proprietors of unexpired derivative copyrights. By holding that a derivative copyright protects only the original contributions of its creator, the court appears to have implicitly rejected the argument that upon copyrighting a derivative work, the proprietor thereof acquires an independent interest in the entire derivative work. Thus, although the Ninth Circuit professed to express no opinion on *Rohauer*,<sup>41</sup> the result reached in the two cases depended on conflicting interpretations of a fundamental principle of cop-

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But the value of this right would be severely attenuated where the derivative work was a major production, for example, a major motion picture, and effectively saturated the market in that particular media.

40. 17 U.S.C. § 103 (1976).

41. 612 F.2d 1123, 1126 n.10.

right law. In view of the questionable logic employed in the *Rohauer* opinion, and in view of the fact that *Rohauer* is a departure from the traditional view of derivative copyrights,<sup>42</sup> it seems unlikely that the Ninth Circuit would retreat from its position in *Russell*, even in a case involving facts closer to those in *Rohauer*.

Had the Ninth Circuit accepted defendant's argument in *Russell*, the ability of licensors of existing derivative works to control the use of their underlying material on the expiration of derivative copyrights would have been placed in doubt. By declining to permit a member of the public to make unfettered use of copyrighted underlying material, the Ninth Circuit properly avoided an unwarranted diminution of the right of copyright proprietors to control the dissemination of their work.

*Daniel C. Moyles\**

## II. *ANTI-MONOPOLY V. GENERAL MILLS FUN INC.: A SIMPLE APPROACH TO GENERICNESS*

### A. INTRODUCTION

In *Anti-Monopoly v. General Mills Fun, Inc.*,<sup>1</sup> the Ninth Circuit clarified the standards which control the determination of whether a trademark has retained sufficient distinctiveness to entitle it to continued protection under the Trademark Act of 1946 (the Lanham Act).<sup>2</sup>

The controversy in *Anti-Monopoly* centered around the trademark on the popular real estate trading game of Monopoly. Parker Brothers, a division of defendant, acquired all the rights to the game, including patent thereon, in 1935, and registered MONOPOLY as a trademark in 1935 and 1936. The patent ex-

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42. See text accompanying *supra* notes 36-37.

\* J.D., Golden Gate University School of Law, 1980.

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1. 611 F.2d 296 (9th Cir. 1979) (per Wallace, J.; the other panel members were Sneed, J., and Blumenfield, D. J., sitting by designation).

2. Trademark Act of 1946 (the Lanham Act) §§ 1-45, 15 U.S.C. §§ 1051-1127 (1976) [hereinafter cited as the Lanham Act].

pired in 1952, and the defendant subsequently relied on its trademark to protect its interests in the game.

Plaintiff created a game designed to extol the virtues of the competitive enterprise system, which he marketed under the title Anti-Monopoly. In 1973, plaintiff sought to register ANTI-MONOPOLY as a trademark, but the Trademark Office refused registration of the mark on the ground that it was confusingly and deceptively similar to defendant's MONOPOLY trademark.

Plaintiff then sought declaratory relief in the district court, contending that the Monopoly mark was invalid because it had become the generic term for the game or, in the alternative, that if the mark were valid, plaintiff's use of the title "Anti-Monopoly" did not infringe on defendant's rights in the MONOPOLY mark.<sup>3</sup> Defendant counterclaimed, alleging infringement, and sought injunctive relief.

The district court held that MONOPOLY was not a generic term and awarded injunctive relief. The Ninth Circuit reversed, holding that the district court had improperly tested for genericness, and remanded the case for a reconsideration of the validity of the MONOPOLY trademark.

## B. BACKGROUND

### *The Functions of a Trademark*

The primary objectives of trademark law are twofold.<sup>4</sup> First, by conferring on a manufacturer the exclusive right to use a

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3. 195 U.S.P.Q. 634 (N.D. Cal. 1977). Plaintiff also asserted claims under state unfair competition law, argued that defendant should be denied injunctive relief under the doctrine of "unclean hands," and that plaintiff should be entitled to a jury trial. These contentions are beyond the scope of this Note, and will not be considered further.

4. In its report to Congress on the Lanham Act, *supra* note 2, the Senate Committee on Patents stated:

The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.

S. REP. No. 1333, 79th Cong., 2d Sess. 1, reprinted in [1946] U.S. CODE CONG. SERVICE 1274.

trademark, trademark law seeks to facilitate the efforts of consumers to identify and distinguish the particular products they desire. In this capacity, a trademark may function both as an indication of the source of a product and as an assurance that the product was manufactured in accordance with a particular standard of quality which a prospective purchaser may associate with the mark from previous experience.<sup>5</sup> Second, a trademark is an important medium through which a manufacturer can advertise its products and develop good will without fear of misappropriation by its competitors.<sup>6</sup>

The efficacy with which a trademark performs these functions is directly dependent on the power of its proprietor to prevent use of the same or similar marks by others. To the extent that the right to use a mark is exclusive, the ease with which consumers can distinguish a product is enhanced and, correlatively, the effectiveness of a producer's advertising is increased. Conversely, if the power to restrict use of a mark is curtailed, the potential for consumer confusion and the dilution of the producer's good will is increased. An absolute power to monopolize terminology, however, would be an open invitation to abuse. Manufacturers would be free to deplete the language available to describe a product, causing a corresponding impairment of the marketing efforts of their competitors.

### *The Genericness Doctrine*

The genericness doctrine is the result of judicial efforts to establish limits on terminology which can be properly appropriated to use as a trademark.<sup>7</sup> A generic term is the common name

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5. Before the early twentieth century, when producers and purchasers were likely to be in close physical proximity, it was generally thought that the primary function of a trademark was to identify the actual origin of a product. *See, e.g., Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412 (1916) ("The primary and proper function of a trademark is to identify the origin or ownership of the article to which it is affixed."). However, with the explosion of population, industry, and transportation, it became increasingly likely that consumers were totally unaware and unconcerned with the identify of the proprietor of a particular trademark. Gradually the courts began to recognize that many consumers rely on a trademark primarily as an assurance of a satisfactory level of quality, rather than as an indication of origin. For a full discussion of the trademark as a symbol of quality, see 1 J. GILSON, *TRADEMARK PROTECTION AND PRACTICE* § 1.03[1] (1979); 1 J. McCARTHY, *TRADEMARKS AND UNFAIR COMPETITION* § 3:3-4 (1973).

6. *E.g., Mishawaka Rubber & Wollen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942).

7. Generic terms comprise one element of a spectrum of classification which the

for an article or class of articles. It is typically a noun, and is a proper response to the question, "What is it?"<sup>8</sup> It can be a name long recognized as forming a part of the English language, and regularly found in dictionaries. It may also be a term coined for use with a particular article or product but which, as a result of such use, has become identified in the minds of the consuming public as the name of that article.<sup>9</sup> In contrast, a species, for purposes of trademark law, is a member of a genus or class defined by a generic term.<sup>10</sup> IVORY, for example, is a species of the genus soap.

A generic term is poorly suited to function as an indication of source or quality. It is the common denominator of all the products within the genus which it defines, and is likely to be employed without regard to a particular product or producer. In the words of one commentator, a generic term is the "antithesis of a [trade]mark."<sup>11</sup> The policies in support of free competition and against the monopolization of common terminology are strongly implicated when trademark protection is sought for a generic term. A necessary consequence of conferring trademark status in such a case is to deprive competitors of the right to call a product by its name. If a product is commonly known by only one or a few names, the result may be to confer a monopoly on the product. Accordingly, once a term is characterized as generic, its entitlement to trademark protection is terminated. It becomes a part of the common English language and is free for use by anyone.<sup>12</sup>

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courts have evolved to evaluate the right of a term to recognition as a trademark, and the degree of protection to be accorded. This spectrum was summarized in *Abercrombie & Fitch Co. v. Hunting World, Inc.*, as follows: "The cases, and in some instances the Lanham Act, identify four different categories of terms with respect to trademark protection. Arrayed in an ascending order which roughly reflects their eligibility to trademark status and the degree of protection accorded, these cases are (1) generic, (2) descriptive, (3) suggestive, and (4) arbitrary or fanciful." 537 F.2d 4, 9 (2d Cir. 1976).

8. 1 J. GILSON, *supra* note 5, § 2.02, at 2-8.

9. For examples of marks suffering this fate, see 1 J. MCCARTHY, *supra* note 5, at § 12:3.

10. See *Surgicenters of Am., Inc., v. Medical Dental Surgeons Co.*, 601 F.2d 1011 (9th Cir. 1979); *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4 (2d Cir. 1976).

11. 1 J. MCCARTHY, *supra* note 5, at 405.

12. *E.g.*, *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938) ("shredded wheat"); *S.S. Kresge Co. v. United Factory Outlet, Inc.*, 598 F.2d 694 (1st Cir. 1979) ("mart"); *CES Publishing Corp. v. St. Regis Publications, Inc.*, 531 F.2d 11 (2d Cir. 1975); *King-Seeley Thermos Co. v. Aladdin Indus., Inc.*, 321 F.2d 577 (2d Cir. 1963)

*The Lanham Act and Generic Marks*

Although it does not employ the phrase "generic term," the Lanham Act contains several provisions calculated to deny trademark protection to terms which are primarily generic. Section 2(e)<sup>13</sup> provides that a mark "when applied to the goods of the applicant is merely description or deceptively misdiscriptive of them" shall be refused registration as a trademark. Section 2(e) does not absolutely prevent registration of descriptive marks, however. Under section 2(f)<sup>14</sup> and at common law, a mark which was at the onset of its use merely descriptive can become entitled to trademark status if it acquires a secondary meaning.<sup>15</sup> That is, if as a result of extensive use and advertisement the proprietor of a descriptive mark succeeds in developing an association in the minds of the consuming public between the mark and its source, the mark is no longer merely descriptive. Rather, it has become distinctive of the producer's goods, and trademark protection will be awarded.

Literally construed, sections 2(e) and 2(f) arguably support the view that a generic term should be entitled to registration if a sufficient showing of secondary meaning is made, as these sections do not expressly prohibit the registration of generic terms. However, the Trademark Office routinely denies registration to generic marks principally on the ground that they are "descriptive" within the meaning of section 2(e).<sup>16</sup> And, although the matter is not absolutely free from doubt,<sup>17</sup> the growing majority

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("thermos"); *DuPont Cellophane Co. v. Waxed Prods. Co.*, 85 F.2d 75 (2d Cir.), *cert. denied*, 299 U.S. 601 (1936) ("cellophane"); *Bayer Co. v. United Drug Co.*, 272 F. 505 (S.D.N.Y. 1921) ("aspirin").

13. 15 U.S.C. § 1052(e) (1976).

14. *Id.* § 1052(f).

15. For a more complete discussion of secondary meaning, see 1 J. GILSON, *supra* note 5, at § 2.09; 1 J. McCARTHY, *supra* note 6, at § 15:1-15:1-9.

16. For a discussion of federal regulation of generic terms, see 1 J. McCARTHY, *supra* note 5, at § 12:18.

17. Several cases have suggested in dicta that a generic term should be entitled to registration on a sufficient showing of secondary meaning. *Union Carbide Corp. v. Ever-Ready, Inc.*, 531 F.2d 366 (7th Cir.), *cert. denied*, 429 U.S. 830 (1976); *American Heritage Life Ins. Co. v. Heritage Life Ins. Co.*, 494 F.2d 656 (5th Cir. 1974); *W. E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656 (2d Cir. 1970); *American Aloe Corp. v. Aloe Creme Laboratories, Inc.*, 420 F.2d 1248 (7th Cir.), *cert. denied*, 398 U.S. 929, *cert. denied*, 400 U.S. 820 (1970); *Southwestern Bell Tel. Co. v. Nationwide Independent Directory Serv. Inc.*, 371 F. Supp. 900 (W.D. Ark. 1974); *Dresser Indus., Inc. v. Hereaus Englehard Vacuum, Inc.*, 267 F. Supp. 963 (W.D. Pa.), *aff'd*, 396 F.2d 457 (3d Cir.), *cert. denied*, 393 U.S. 939 (1968).



of courts have taken the position that a generic mark is never subject to registration, regardless of any evidence of secondary meaning.<sup>18</sup> These courts have adopted the view that the objectives of free competition outweigh those of trademark law when a generic mark is in issue.

Sections 14<sup>19</sup> and 15<sup>20</sup> of the Lanham Act focus on the problem of a mark which, although at the inception of its use was distinctive, has become generic through association with a particular product. Section 14 provides cancellation of a registration of a mark "at any time if the registered mark becomes the common descriptive name of an article or substance . . . ." Section 15 provides that when a mark has been used in commerce for five consecutive years, the right to use the mark becomes incontestable, but also contains the proviso that "no incontestable right shall be acquired in a mark which is the common descriptive name of an article or substance." The courts have treated "common descriptive name" as equivalent to the phrase "generic term."<sup>21</sup>

### *The Standard for Genericness*

The central issue in a genericness case is whether the con-

18. *Soweco, Inc. v. Shell Oil Co.*, 617 F.2d 1178 (5th Cir. 1980) ("larvacide" not generic); *Surgicenters of Am., Inc. v. Medical Dental Surgeons Co.*, 601 F.2d 1011 (9th Cir. 1979) ("surgicenters" generic); *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4 (2d Cir. 1976) ("safari" generic in some contexts but not in others); *CES Publishing Corp. v. St. Regis Publications, Inc.*, 531 F.2d 11 (2d Cir. 1975) ("Consumer Electronics" generic); *Leon Finker, Inc. v. Schlusell*, 469 F. Supp. 674 (S.D.N.Y. 1979) ("trillion" used with triangular shaped diamonds generic); *Trak, Inc. v. Brenner Ski Kg*, 475 F. Supp. 1076 (D. Mass. 1979); *In re Soccer Sport Supply Co., Inc.*, 507 F.2d 1400 (C.C.P.A. 1975); *Roux Laboratories, Inc. v. Clairol, Inc.*, 427 F.2d 823 (C.C.P.A. 1970); *In re Performed Time Prod. Co.*, 323 F.2d 1007 (C.C.P.A. 1963); *Roselux Chem. Co. v. Parsons Ammonia Co.*, 299 F.2d 855 (C.C.P.A. 1962) ("sudsy" for detergent generic); *Weiss Noodle Co. v. Golden Cracker & Specialty Co.*, 290 F.2d 845 (C.C.P.A. 1961) ("ha-lush-ka" generic when applied to egg noodle products).

Evidence of secondary meaning is always relevant to determine whether a mark is generic in the first place, *In re Automatic Radio Mfg. Co.*, 404 F.2d 1391 (C.C.P.A. 1969), but under the rule followed in these cases, once the stigma of genericness attaches, even a substantial proof of secondary meaning may not entitle it to trademark status.

It may be that, in many cases, the two positions will not produce different results. That is, in courts which would permit registration of a generic term on a showing of secondary meaning, the requisite showing is likely to be such that courts taking the contrary view would conclude that the mark is not generic.

19. 15 U.S.C. § 1064 (1976).

20. *Id.* § 1065.

21. *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).

sumers in the relevant market place view a mark primarily as the name of the article in connection with which the mark is used.<sup>22</sup> That is, whether the mark symbolizes the source or quality of a product, or is simply the name of the product itself. In the former instance, it functions as a trademark; in the latter, it is a generic term. The analysis of genericness thus necessarily involves ascertaining how the mark is perceived by consumers. In making this evaluation the court may rely on a variety of types of evidence including, for example, consumer testimony, consumer surveys, and dictionaries.<sup>23</sup> That some consumers may use a mark as the name of an article, however, does not compel a finding of genericness. To properly be characterized as generic, the principal significance of a mark, that is, its meaning to a majority of the product's consumers, must be to denote the name of a product rather than its source.<sup>24</sup>

#### *Original and Acquired Distinctiveness*

Courts typically assert the standard for genericness as an abstract principal of trademark law to be applied uniformly in all genericness cases. In practice, however, the courts distinguish between marks which were descriptive or generic at the onset of their use, and marks which were originally distinctive, but which the public may have adopted as a generic term. In the former instance, the user is seeking registration or protection of a mark which would otherwise comprise a part of the common vocabulary on the theory that the mark has acquired a secondary meaning. In this case, it is the proprietor of a mark who has the burden of proving that the mark is neither generic nor merely descriptive,<sup>25</sup> and the greater the degree of descriptiveness or

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22. A frequently quoted test for genericness was offered by Judge Learned Hand in *Bayer Co. v. United Drug Co.*, 272 F. 505, 509 (S.D.N.Y. 1921): "The single question, as I view it, in all these cases, is merely one of fact: What do buyers understand by the word for whose use the parties are contending?"

23. For a full discussion of the types of evidence on which the courts rely to evaluate genericness, see 1 J. GILSON, *supra* note 5, at § 2.02[2].

24. *Helene Curtis Indus., Inc. v. Church & Dwight Co.*, 560 F.2d 1325 (7th Cir. 1977), *cert. denied*, 434 U.S. 1070 (1978); *King-Seely Thermos Co. v. Aladdin Indus., Inc.*, 321 F.2d 577 (2d Cir. 1963); *Feathercombs, Inc. v. Solo Prods. Corp.*, 306 F.2d 251 (2d Cir.), *cert. denied*, 371 U.S. 910 (1962); *E. I. DuPont de Nemours & Co. v. Yoshida Int'l, Inc.*, 393 F. Supp. 502 (E.D.N.Y. 1975); *Stix Prods., Inc. v. United Merchants & Mfrs., Inc.*, 295 F. Supp. 479 (S.D.N.Y. 1968).

25. *Keller Prods., Inc. v. Rubber Linings Corp.*, 213 F.2d 382 (7th Cir. 1954); *Jean Patov, Inc. v. Jacqueline Chochron, Inc.*, 201 F. Supp. 861 (S.D.N.Y. 1962), *aff'd*, 312 F.2d 125 (2d Cir. 1963); *In re Meyer & Wenthe, Inc.*, 267 F.2d 945 (C.C.P.A. 1959); *In re*

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genericness, the heavier this burden is likely to be.<sup>26</sup> In some instances, a mark may be so inherently descriptive or generic that registration or protection will be denied, regardless of the evidence of secondary meaning.<sup>27</sup>

On the other hand, if a mark had primary distinctiveness, that is, the mark was arbitrary or fanciful at the onset of its use, but has become generic as a result of public association between the name of the product and the mark, the courts apply the test for genericness with much less vigor. In such a case, the party alleging genericness must produce the evidence.<sup>28</sup> Doubts are resolved in favor of the trademark proprietor,<sup>29</sup> and if the mark has a mixed significance, evidence which might otherwise be disregarded as proof of secondary meaning is weighed in determining whether trademark protection shall continue.<sup>30</sup>

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Hollywood Brands, Inc., 214 F.2d 139 (C.C.P.A. 1954); see *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938).

26. *In re Meyer & Wenthe, Inc.*, 267 F.2d 945 (C.C.P.A. 1959).

27. For cases holding that once a mark is characterized as generic, no amount of evidence of secondary meaning will entitle it to registration or protection, see note 18 *supra*.

28. *E. I. DuPont de Nemours & Co. v. Yoshida Int'l, Inc.*, 393 F. Supp. 502 (E.D.N.Y. 1975); *American Thermos Prods. Co. v. Aladdin Indus., Inc.*, 207 F. Supp. 9 (D. Conn. 1962), *aff'd sub nom. King-Seeley Thermos Co. v. Aladdin Indus., Inc.*, 321 F.2d 577 (2d Cir. 1963).

29. *American Thermos Prods. Co. v. Aladdin Indus., Inc.*, 207 F. Supp. 9 (D. Conn. 1962), *aff'd sub nom. King-Seeley Thermos Co. v. Aladdin Indus., Inc.*, 321 F.2d 577 (2d Cir. 1963).

30. See *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 10 (2d Cir. 1976). Addressing the issue of genericness, the court stated that:

[t]he pervasiveness of the principle [that a generic term should never be entitled to trademark protection regardless of evidence of secondary meaning] is well illustrated by a series of well-known cases holding that when a suggestive or fanciful term has become generic . . . trademark protection will be denied save for those markets where the term still has not become generic and a secondary meaning has been shown to continue.

Professor McCarthy, arguing that once a mark has been found to be generic, evidence of secondary meaning is irrelevant, stated:

Once determined to be generic, any proof of secondary meaning seems contradictory to the very concept of "generic." That is, if buyers think the word is the name of the *product*, how would there be secondary meaning in the sense that buyers associate the name with *only one source*? There are several possibilities:

(1) Where there is only one source for a particular genus of goods over a period of time, the public might come to associate that one source with the generic name of the goods. But

In a few cases, courts have required that the party alleging genericness do more than preponderate, and insist that there be a conclusive showing of genericness,<sup>31</sup> or a showing that the mark has lost all significance as a trademark.<sup>32</sup> Even if the mark is determined to be generic, it does not follow that all trademark protection is lost. Where a mark still retains trademark significance to an appreciable percentage of consumers, the court may be willing to fashion a decree requiring the defendant to take extra measures in connection with the use of the mark to ensure that its goods are not confused with the plaintiff's.<sup>33</sup> If a mark continues to function as a trademark to an identifiable segment of the marketplace, some courts have been willing to continue the trademark status of the mark in that particular market.<sup>34</sup>

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this is not evidence of trademark usage, and is referred to as mere "de facto secondary meaning."

(2) Some buyers may think the term is generic, while others think it is a trademark. In such a case, the term is generic to some buyers and a trademark to others.

1 J. McCARTHY, *supra* note 5, at 432 (citations omitted).

This writer believes there is a third possibility which Professor McCarthy has not presented. In many instances, a consumer's perception of a mark will not be clearly defined, and the mark will have a mixed significance. That is, a consumer may use a mark generically for reasons of convenience, but may also recognize that the mark is the brand of a particular producer. In this case, the relevant group of buyers consists of those who think the mark is generic, those to whom the mark has a mixed connotation, and those who view the mark as a trademark. An excellent illustration of this situation was presented in *E. I. DePont de Nemours & Co. v. Yoshida Int'l*, 393 F. Supp. 502 (E.D.N.Y. 1975). In that case, Yoshida argued that DuPont's trademark TEFLON had become generic. Yoshida offered a consumer survey in which approximately 86% of consumers who, when asked for the name of pots and pans covered with a non-stick coating, responded with TEFLON or TEFLON II. DuPont countered with a survey of its own in which consumers were asked whether they recognized TEFLON as a brand name. Approximately 68% of the consumers surveyed responded that they did, and the court concluded that TEFLON was not generic.

By resolving doubts in favor of a trademark proprietor in such a case, evidence of a mixed significance, which might otherwise be characterized as proving only a secondary association, would instead support a finding that a mark is not generic.

31. *Thomas Pride Mills, Inc. v. Monsanto Co.*, 155 U.S.P.Q. 205 (N.D. Ga. 1967). For an analysis of how the genericness doctrine may penalize the effective promoter, and an argument that a finding of genericness should result only after conclusive evidence thereof, see 3 R. CALLMAN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 74.2 (3d ed. 1969).

32. *Marks v. Polaroid Corp.*, 129 F. Supp. 243, 270, *aff'd*, 237 F.2d 428 (1st Cir. 1956), *cert. denied*, 352 U.S. 1005 (1957).

33. *King-Seeley Thermos Co., v. Aladdin Indus., Inc.*, 321 F.2d 577, 581 (2d Cir. 1963).

34. *Bayer Co. v. United Drug. Co.*, 272 F. 505, 510 (S.D.N.Y. 1921).

### C. THE NINTH CIRCUIT'S ANALYSIS

The district court ruled that MONOPOLY could not be deemed generic unless it was found to refer "to all real estate trading board games and not to an individual game emanating from a single source."<sup>35</sup> Having thus formulated the controlling genus, the district court concluded that the public did not use MONOPOLY in a generic sense, but used it to refer to a "particular and very popular board game produced by a single company,"<sup>36</sup> and that the mark was therefore valid.

The Ninth Circuit rejected this construction of the genericness issue. The crucial determination, the court stated, was whether "consumers use the term MONOPOLY primarily to denote the product, or instead to denote its producer."<sup>37</sup> The court of appeals held that the district court failed to address this question by tying the alternative findings together in its conclusion.

The Ninth Circuit prefaced its analysis of genericness with a review of the fundamental objectives of patent law, and its relationship to trademark law. Patent law, the court noted, was designed to encourage the development of new technology by granting limited monopolies, but is a narrow exception to the general principle of free competition in intellectual property. Trademarks, the court continued, are not properly used to extend patent monopolies. The genericness doctrine "is designed to prevent such anti-competitive misuse of trademarks."<sup>38</sup>

To illustrate the proper application of the genericness doctrine, the Ninth Circuit developed a hypothetical example based on the variation of the game of chess manufactured by Chessco, and marketed under the trademark EN PASSANT.<sup>39</sup> It may be, the court postulated, that a consumer desires EN PASSANT for reasons which are "source particular,"<sup>40</sup> for example, price, style,

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35. 611 F.2d 296 at 305.

36. *Id.*

37. *Id.*

38. *Id.* at 301.

39. *Id.* at 303. EN PASSANT is not a hypothetical game, but is actually produced by Chessco. Although EN PASSANT is similar to the game of chess, it differs in many respects.

40. *Id.*

or quality. In such a case a consumer uses EN PASSANT as a trademark, to identify and distinguish a particular species of the game of chess, produced by Chessco. On the other hand, it may be that a consumer desires EN PASSANT for reasons which are "source-irrelevant,"<sup>41</sup> that is, because the game is played by different rules than the common version of chess. In this instance, a consumer uses EN PASSANT generically, to identify a particular game rather than a species of a game and

[w]here before there was only one relevant product category or genus, chess, there are now two: chess and EN PASSANT. If Chessco wants to monopolize this product category, it may do so through a patent, but not through a trademark. In trademark genericness parlance, EN PASSANT has evolved from a species to a genus.<sup>42</sup>

In the same fashion, the Ninth Circuit recommended that consumers may use MONOPOLY generically, without understanding the term to refer to all real estate trading games. That is, "if consumers think of MONOPOLY as a unique game, and differentiate it from all other real estate trading games by source-relevant characteristics, e.g., length of time it takes to play, or strategy involved, MONOPOLY may constitute its own genus."<sup>43</sup>

The district court's error resulted from attempting to analyze genericness by first defining a genus, and then determining whether the genus and MONOPOLY were equivalent. Once the judge improperly defined the genus, he never confronted the possibility that MONOPOLY itself might constitute a genus. To avoid this error, the district court should have foregone the definition of a genus altogether. "The proper mode of analysis is to decide but one question: whether the primary significance of a term is to denote product, or source. In making this determination, the correct genus-species distinction, that is, the correct genericness finding, follows automatically."<sup>44</sup>

Accordingly, the Ninth Circuit reversed the holding of the district court, and remanded the case for a reconsideration of

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41. *Id.*

42. *Id.*

43. *Id.* at 305.

44. *Id.* at 306.

whether MONOPOLY is a generic term.

#### D. CRITIQUE

The Ninth Circuit properly declined to adopt the district court's analysis of genericness. The test proposed by the district court, that is, whether MONOPOLY referred to all real estate trading board games or to a single game produced by a particular company, was overly broad. Under this approach, MONOPOLY might be found entitled to continued recognition as a trademark even if it were generally perceived as a purely generic term. MONOPOLY need not encompass all real estate games to become generic; as the Ninth Circuit noted, it is possible for MONOPOLY itself to become a genus.

The difficulty inherent in attempting to analyze genericness by first defining a genus is clearly revealed in the district court's opinion. The issue of genericness arises in an enormous variety of circumstances.<sup>45</sup> It is difficult, if not impossible, to formulate standards by which a genus can be consistently and fairly defined. Rather, a genus will expand or contract according to the perceptions of the particular judge or jury and the facts of each case. Moreover, the district court's approach would tend to obscure rather than clarify the crucial issue in a genericness case—the significance of a mark to consumers. A mark is not generic because it is possible to theorize a genus to which it applies; a mark can be generic only if the consumers of the product perceive it as such. Only then are the policies of trademark law and free competition implicated.

The test proposed by the Ninth Circuit at the conclusion of its analysis of genericness avoids these pitfalls by stating the criteria for genericness directly in terms of the central issue: does the consuming public understand the mark as referring to the product itself, or as a symbol of source or quality? In answering this question, "the correct genus-species distinction, that is, the correct genericness finding, follows automatically."<sup>46</sup>

This approach to the question of genericness has much to

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45. For an illustrative list of uses considering genericness, see 1 J. McCARTHY, *supra* note 5, at § 12:3-4.

46. 611 F.2d at 306.

recommend it. It avoids the need to define a genus, and thus avoids involving the court in the tangential problem of determining the criteria by which such a definition should be formulated. It has the potential of being applied with a high degree of fairness and consistency—the court need only consider the disputed mark in the context of each product to which it is affixed, and ask whether it is primarily understood as the common name of that product. It also closely parallels the “common descriptive name” terminology used in the Lanham Act, and is thus most likely to produce results which are consistent with the objectives of the statute.<sup>47</sup>

Although the *Anti-Monopoly* panel is to be commended for its straightforward approach to the issue of genericness, the opinion contains dicta which suggest that a finding of genericness should result in circumstances where it may be unwarranted. In its discussion of EN PASSANT, the court noted that a consumer may request EN PASSANT not because it is produced by Chessco, but because the game itself possesses unique features or qualities which distinguish it from other versions of chess. In such a case, a consumer no longer recognizes EN PASSANT as a symbol of source or quality, but uses it generically and, in the words of the court, “EN PASSANT has evolved from a species to a genus.”<sup>48</sup>

The difficulty with this reasoning is that it may create insurmountable obstacles for the producers of new or unique products who seek trademark protection, particularly when the common vernacular does not contain convenient terminology with which consumers can describe or identify the product. A consumer's natural inclination when confronted with a new or unusual product, is to adopt the producer's trademark as the name of the product. The consumer requires a word to identify the article which the English language may not supply, and the trademark becomes a convenient solution. Moreover, a consumer in these circumstances will not rely on a mark to perform the usual function of a trademark—to facilitate product selection—simply because the product has no competition. The source of the product becomes a secondary consideration, and

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47. See text accompanying note 14 *supra*.

48. 611 F.2d at 303.



consumers will make their purchasing decisions primarily on the basis of whether the product satisfies a particular need. It is only when a consumer encounters competing versions of the same product that the significance of a mark as a trademark is likely to become paramount.

It is thus likely that a mark used in connection with a new or unique product begins to degenerate into a generic term at the instant of its presentation to the public, regardless of how fanciful or arbitrary it may be. It does not necessarily follow, however, that the public's interest in continuing trademark protection for such a mark is thereby extinguished. In many instances, especially while a mark is relatively new to the public, it will assume a dual significance, functioning both generically and as a symbol of source or quality.<sup>49</sup> While only one source exists for a product, consumers may use the mark affixed thereto generically simply for reasons of convenience, but may also continue to recognize that the mark signifies that the product emanated from a particular source. As long as this secondary association persists, a mark has the potential of functioning primarily as a trademark, should a competitor enter the field.

Nor does it necessarily follow that when trademark protection is conferred on a mark which is used generically, the proprietor thereof acquires a monopoly in the product to which the mark is affixed. Trademark protection does not, in and of itself, create a monopoly; absent patent protection, competing manufacturers are at all times free to create their own versions of a product, and enter the market with their own trademark. The extent to which continued protection of an allegedly generic mark will frustrate competition is a function of the public perception of the mark. As long as a mark retains secondary significance to a substantial percentage of consumers, competitors will be able to enter the market with minimal difficulty. Market entry is likely to be impossible or commercially impractical only in cases in which consumers perceive a mark as a purely generic term.

A finding of genericness in these circumstances may do as much to impede as to promote free enterprise. Manufacturers

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49. See note 30 *supra*.

contemplating the introduction of a product may elect to assert a defense of genericness not because an allegedly generic mark prevents their entry into a market, but because substantial reductions in advertising costs may be realized by appropriating the good will of their competitor. It may be that a wealth of alternative symbols and terminology were available to an imitator to serve as a trademark. A finding of genericness in these circumstances will necessarily reduce the return on investment to which the creator of a mark would ordinarily be entitled.<sup>50</sup> And the imitator will be rewarded for its efforts with a competitive advantage, as it will be able to offer its product at a lower price. A court should be reluctant to find a mark which was originally distinctive generic, as the ultimate effects of such a finding will be the promotion of ill will among manufacturers, and the discouragement of vigorous product development and advertisement.<sup>51</sup>

Accordingly, when a mark under consideration was originally fanciful or arbitrary, and particularly when it has been used in connection with a new or unique product, the courts should evaluate genericness with an eye to preserving trademark status. The party asserting genericness should bear the burden of proof, and doubts should be resolved in favor of the trade-

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50. In *Kellogg Co. v. National Biscuit Co.*, the Supreme Court stated that it was not unfair to compel National to share the good will in the term "shredded wheat," developed at substantial expense and effort, because "[s]haring in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all—and in the free exercise of which the consuming public is deeply interested." 305 U.S. 111, 122 (1938).

While the conclusion that a mark is generic may be justified on public policy grounds, this writer believes that it can also be extremely unfair to the proprietor of the mark, as the effect can be to compel a manufacturer to subsidize the efforts of its competitors. See 3 R. CALLMAN, *supra* note 31, at § 74.2.

51. In determining that commercial speech is protected by the first amendment, the Supreme Court has recently recognized the strong public interest in advertising. In *Virginia State Bd. of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 765 (1976), Justice Blackmun stated:

Advertising, however tasteless and excessive it sometimes may seem, is nonetheless dissemination of information as to who is producing and selling what product, for what reason, and at what price. So long as we preserve a predominantly free enterprise economy, the allocation of our resources in large measure will be made through numerous private economic decisions. It is a matter of public interest that those decisions, in the aggregate, be intelligent and well-informed.

mark proprietor.<sup>52</sup> The courts should consider evidence of secondary meaning, recognizing that a generic usage may simply be a matter of convenience. In this context, the test for genericness should require that a majority of consumers no longer recognizes a mark as the brand of a particular producer, and not merely that a majority of consumers uses a mark generically.<sup>53</sup>

Another fault with the *Anti-Monopoly* opinion lies in its discussion of the relationship between patent and trademark law. In asserting that trademarks are not properly used as patent substitutes, the court both confused the analysis of genericness, and appears to have invited a more rigorous scrutiny of marks which have been used in connection with patented products.<sup>54</sup> Although it is true that trademarks are not properly used to extend patent monopolies, the presence or absence of patent protection is merely a coincidental factor in the determination of genericness.<sup>55</sup> While it may be that the likelihood of a mark's becoming generic during the period of a patent monopoly is increased, it is entirely possible that patent production had no effect whatsoever on the public perception of the mark. In analyzing genericness, a court would ask only whether consumers have adopted a mark as the name of a product—a question which can be answered without reference to patent law.

## E. CONCLUSION

In holding that the issue of genericness can be resolved by simply asking whether a mark denotes a product or its source, the Ninth Circuit offered a simple, straightforward approach to

52. See notes 28 and 29 *supra* and accompanying text.

53. See note 30 *supra*.

54. In its discussion of patent law, the Ninth Circuit cited *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169 (1896). In that case, the Court held that the mark SINGER passed into the public domain upon the expiration of related sewing machine patents. A number of subsequent cases construed *Singer* to mean that a trademark used in connection with a patented product expires with the patent. Contemporary authorities, however, reject any such rule, and the fact that a product was patented does not raise any presumption of genericness. For a complete discussion of the history of the *Singer* doctrine, see 1 J. GILSON, *supra* note 5, at § 2.02[3].

Although the Ninth Circuit cited *Singer* only for the proposition that when a patent expires the invention which the patent protected enters the public domain, by approving of *Singer* in the context of a genericness case, the Ninth Circuit opinion is at least susceptible of being interpreted as taking a restrictive view of trademarks which have been used on patented products.

55. See 1 J. GILSON, *supra* note 5, at § 2.02[3].

the problem of the validity of a trademark. Under this approach, a court will avoid the difficult task of defining a genus, and is more likely to reach a result which is fair to both a trademark proprietor and the consuming public. But the courts should apply the test with particular caution when an originally distinctive mark is in issue, recognizing that such a mark may have utility as a trademark despite an apparent generic usage.

*Daniel C. Moyles\**

### III. THE VALIDITY OF THE CALIFORNIA *DROIT DE SUITE* UNDER PREEMPTION PRINCIPLES

#### A. FACTS

In *Morseburg v. Balyon*<sup>1</sup> the Ninth Circuit held that the Copyright Act of 1909 does not preempt the California Resale Royalties Act (Royalties Act).<sup>2</sup> The case arose when plaintiff, an art dealer, in separate transactions sold two paintings under circumstances which brought him within the provisions of the newly enacted Royalties Act.

The Royalties Act requires a seller of fine art (paintings, sculpture and drawings), if the seller resides in California or if the sale takes place within the state, to pay five per cent of the proceeds of the sale to the artist. The royalty applies to all such sales except for initial sales by the artist,<sup>3</sup> resales after the death of the artist,<sup>4</sup> resales of less than \$1000,<sup>5</sup> or when the selling price is less than the seller's purchase price.<sup>6</sup> The Royalties Act places the burden on the seller to locate and pay the artist within 90 days, or to pay the royalty to the Arts Council, which

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1. 621 F.2d 972 (9th Cir. June 1980) (per Sneed, J.; the other panel members were Schroeder and Alarcon, J.J.), *cert. denied*, 49 U.S.L.W. 3343-44 (Nov. 11, 1980).

2. CAL. CIV. CODE § 986 (West) which became operative on January 1, 1977.

3. *Id.* § 986(b)(1).

4. *Id.* § 986(b)(3).

5. *Id.* § 986(b)(2).

6. *Id.* § 986(b)(4).

will attempt to find the artist.<sup>7</sup>

The plaintiff challenged the constitutionality of the Royalties Act on the theories that: (1) it was preempted by the Copyright Act of 1909 in effect at the time of the sales; (2) its provisions unduly impaired the right to contract given in the contracts clause of the U.S. Constitution; and (3) it deprived plaintiff of a fundamental property right without due process.

The district court rejected all of plaintiff's claims,<sup>8</sup> and the Ninth Circuit affirmed, holding that the 1909 Act did not preempt the state Royalties Act.

## B. HISTORICAL AND LEGAL SETTING

### *Preemption*

Under constitutional authority to regulate copyright,<sup>9</sup> Congress enacted the Copyright Act of 1909, in controversy here, which provides that, "[a]ny person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right: (a) To print, reprint, copy, and vend the copyrighted work; . . ."<sup>10</sup> Nevertheless, Congress never purported to maintain exclusive jurisdiction over copyright. The Supreme Court early noted that the Constitution did not take away an author's common law property right in an unpublished work.<sup>11</sup> In *Wheaton v. Peters*, the Court first articulated the boundaries of the states' concurrent copyright powers, which are reached when the state law "actually conflicts with the exercise of the powers of Congress."<sup>12</sup>

Since that time the courts have grappled with the issue of the extent of the states' powers in copyright, especially in those

7. *Id.* § 986(a)(2), (5). Other portions of the Resale Royalties Act provide an artist's right of action against the seller for three years after sale or one year after discovery of sale, and a claim against the Arts Council for seven years if the seller paid the Council. The artist's right to receive the royalty is neither transferrable nor waivable. The royalty retained by the seller is exempt from attachment or judgment by the seller's creditors.

8. 201 U.S.P.Q. 518, 520 (C.D. Cal. 1978).

9. U. S. CONST. art. I, § 8, cl. 8 gives Congress the power, "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

10. 17 U.S.C. § 1(a) (1970).

11. *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 597-98 (1834).

12. *Id.*

areas which touch the federal statutes. The Supreme Court has discussed the issue generally in cases dealing with other federal powers, such as the right to regulate interstate commerce,<sup>13</sup> the registration of aliens,<sup>14</sup> and the regulation of the practice of law.<sup>15</sup>

The Court has been reluctant to deny out of hand the states' regulatory power. Rather, the Court has stated that in a variety of areas in which the federal government and the states have concurrent power, state law is preempted only when it "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."<sup>16</sup> More fundamentally, the Court will differentiate between the nature of the power in question and the subjects of the power the state is trying to affect to determine whether the state is precluded from acting. In other words, the Court has admonished the lower courts not to look merely at the nature of a power to decide whether the states may enter that regulatory field, but rather to look at the subjects the states are attempting to control. If the subject is national in scope, one that "admit[s] only of one uniform system, or plan of regulation,"<sup>17</sup> for example railroad safety or the standards for granting a patent on an invention, then those subjects fall within the exclusive legislative power of Congress. On the other hand, if the subjects of a power are not of such national importance or if a state has an interest in regulating a subject peculiarly important to its citizens, then the state may validly exercise the "national" power.

The Court used this rationale in *Sears, Roebuck & Co. v. Stiffel*<sup>18</sup> and *Compco Corp. v. DayBrite Lighting, Inc.*<sup>19</sup> which

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13. *Cooley v. Board of Wardens*, 53 U.S. (12 How.) 299 (1851) (upholding state law regulating certain pilotage fees because, *inter alia*, it did not interfere with the federal power to regulate interstate commerce even though Congress had enacted other pilotage fee regulations).

14. *Hines v. Davidowitz*, 312 U.S. 52 (1941) (invalidation of state law requiring registration of aliens in addition to federal registration).

15. *Sperry v. Florida*, 373 U.S. 379, 384 (1963) (denial of state's request for an injunction to prevent a non-lawyer from practicing before the U.S. Patent Office, noting that the law of a state, though enacted in the exercise of an uncontroverted power, must yield when incompatible with federal legislation).

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

17. *Cooley v. Board of Wardens*, 53 U.S. (12 How.) 299, 319 (1851).

18. 376 U.S. 225 (1964).

19. 376 U.S. 234 (1964).

involved articles that were arguably patentable, upon which patents were held invalid. When an article capable of being patented or copyrighted is held to be unprotected by a patent or a copyright, state law cannot forbid others to copy the article.<sup>20</sup> To forbid copying would interfere with the federal scheme of patent and copyright laws which allow free access to copy whatever the federal laws purposely leave in the public domain.<sup>21</sup> Thus, state unfair competition laws could not protect inherently patentable items which did not meet the requirements for patent.

The Ninth Circuit in *Cable Vision, Inc. v. KUTV, Inc.*<sup>22</sup> similarly defined the scope of permissible state intrusion into the copyright field. State law interferes with federal policy when the state creates a new protectable interest beyond what the copyright laws confer.<sup>23</sup>

In *Goldstein v. California*,<sup>24</sup> the Supreme Court did not find this interference with federal policy in the California laws which made record piracy a criminal act. When the state law deals with a subject matter inherently not copyrightable and "of purely local importance and not worthy of national attention or protection,"<sup>25</sup> as were sound recordings prior to 1972, then that state law does not conflict with federal regulation,<sup>26</sup> and is therefore not preempted.

### *California Resale Royalties Act*

The United States has not provided any more benefit to the fine artist than it has to other originators of "writings." Congress declined to include a *droit de suite* (literally, "follow-up right" or, as it has come to be translated, "art proceeds right") provision in or along with the Copyright Revision Act of 1976. Thus,

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20. *Id.* at 237.

21. *Id.*

22. 335 F.2d 348 (9th Cir. 1964).

23. *Id.* at 351.

24. 412 U.S. 546 (1973).

25. *Id.* at 558. A 1972 amendment to the federal copyright laws provided protection to sound recordings for a specific period of time, presumably contemplating protection until the Copyright Revision Act of 1976 would take effect. *Id.* at 552.

26. Even though sound recordings were not inherently copyrightable at that time, the Court found them to be within the meaning of "writings" in the Constitution; thus, "Congress was empowered to legislate regarding [sound recordings] and could preempt the area if it chose to do so." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 479 (1974).

California added Civil Code section 986, the Resale Royalties Act,<sup>27</sup> to its laws in 1977 to give its artists the benefit of a continued financial interest in their works.

The right of an artist to participate in the increased value of her or his work as it is sold and resold on the market first originated about 1920 in France in response to the romanticism imposed upon the Impressionist painters.<sup>28</sup> Several European countries added *droit de suite* provisions to their copyright laws soon afterward. The California Resale Royalties Act is patterned after this legislation.

The need for *droit de suite* legislation arose because of the nature of works of fine art as opposed to the nature of other works of authorship. An author of a written work receives a royalty with each copy sold, whereas a painter or sculptor has no such benefit. The sale of a painting, drawing or sculpture is a single, final event.<sup>29</sup>

The nature of copyright protection is that copies of works may be made only with the authorization, and to the financial benefit, of the originator. The protection for the fine artist is considerably less valuable under copyright laws because the artist does not financially benefit from the sale of copies of his or her work, but from the sale of the original itself. In other words, the exploitation of the creative works of writings and music is in the reproduction, while the first sale from painter or sculptor to another is the only exploitation the fine artist receives. Any more gains in the sale of the original is realized by the owner of the work, not by the artist.

The rationale for providing compulsory royalties to fine artists, therefore, "lies in the desire to secure for them a continuing financial interest in their work in a manner commensurate with

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27. See note 7 *supra* and accompanying text for provisions of the Royalties Act.

28. For a more detailed history and criticism of *droit de suite*, see generally, Hauser, *The French Droit de Suite: The Problem of Protection for the Underprivileged Artist under the Copyright Law*, 11 ASCAP COPYRIGHT L. SYMP. 1 (1962); Price, *Government Policy and Economic Security for Artists: The Case of the Droit de Suite*, 77 YALE L.J. 1333 (1968); Schulder, *Art Proceeds Act: A Study of the Droit de Suite and a Proposed Enactment for the United States*, 61 NW. L. REV. 19 (1966-67).

29. Price, note 28 *supra*, at 1343.



that conferred on other artists by our copyright laws."<sup>30</sup> It also lies in the concept that the fine artist continues to influence the value of each original work throughout his or her life, and that artist should reap some benefit from those efforts.<sup>31</sup>

### C. NINTH CIRCUIT ANALYSIS

#### *Preemption*

In a holding specifically confined to the Copyright Act of 1909, the court stated that the Royalties Act afforded rights additional to those created by the 1909 Act. The court analyzed the preemption issue in terms of the extent to which the 1909 Act "occupied the field" addressed by the Royalties Act and the "conflict" with the federal copyright law which plaintiff claimed the Royalties Act generated.<sup>32</sup>

The court recognized the broad meaning given to each term. Depending upon the Supreme Court's choice of emphasis, occupation, the court stated, "can require no more than the existence of a federal law generally applicable to a significant portion of the area in question to no less than an express statement demonstrating an intention to occupy the area duly enacted by Congress."<sup>33</sup> Similarly, conflict can have a wide range of meaning, from the mere possibility of potential conflict between state and federal law, to an actual, substantial thwarting of important federal purposes.<sup>34</sup>

The Ninth Circuit noted that in situations in which what it called "national power" is at stake, such areas as foreign affairs and labor relations, the courts will more likely find federal preemption than in situations in which state powers such as consumer protection are involved.<sup>35</sup>

The court found that *Goldstein v. California*,<sup>36</sup> in which the

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30. Remarks of Rep. Waxman, 124 CONG. REC. E1145, Mar. 8, 1978.

31. Abel Ferry, originator of the *droit de suite*, cited in Hauser, *The Problem of Protection for the Underprivileged Artist under the Copyright Law*, 11 ASCAP COPYRIGHT L. SYMP. 1, 41 (1962).

32. 621 F.2d at 976.

33. *Id.*

34. *Id.*

35. 621 F.2d at 976-77.

36. 412 U.S. 546, *reh. denied*, 414 U.S. 883 (1973).

Supreme court held that a California record piracy statute did not conflict with federal copyright law, governed this case. The challenged statute in *Goldstein* protected owners of master sound recordings from piracy at a time when sound recordings were not a category of "writings" embraced within federal copyright laws. The Supreme Court ruled that the Constitution does not give Congress exclusive power over copyright and thus does not preclude the states from granting copyright protection to those subjects not covered by federal law.<sup>37</sup>

Congress had not set out requirements for the copyrightability of sound recordings at that time. No scheme existed to distinguish between those recordings qualifying for copyright and those Congress desired to be left in the public domain. Because Congress had not entered the field and had not "drawn a balance"<sup>38</sup> between competing interests of the states and the federal government in the area of sound recordings, the state statute could not conflict with federal law.<sup>39</sup>

Both the Supreme Court in *Goldstein* and the *Morseburg* panel found *Sears*<sup>40</sup> and *Compco*<sup>41</sup> unsupportive of the position that the respective state laws were preempted by federal copyright laws. At issue in *Sears* and *Compco* were state laws which purported to prohibit, under unfair competition laws, the copying of mechanical configurations which, although inherently patentable, fell short of the qualifications for the grant of a patent. Unlike the record piracy and Royalties Act, respectively, then, the state laws in *Sears* and *Compco* actually conflicted with a federal scheme which afforded protection to qualified objects and specifically placed objects falling outside those qualifications in the public domain.<sup>42</sup>

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37. *Id.* at 560.

38. *Id.* at 569.

39. *Id.* at 569-70. ("The application of state law in these cases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way under the Supremacy Clause of the Constitution. No comparable conflict between state and federal law arises in the case of recordings of musical performances. In regard to this category of 'writings,' Congress has drawn no balance; rather, it has left the area unattended, and no reason exists why the state should not be free to act.")

40. 376 U.S. 225 (1964).

41. 376 U.S. 234 (1964).

42. *Goldstein v. California*, 412 U.S. 546, 569-70; see also *Morseburg v. Balyon*, 621 F.2d 972, 978, which states the Ninth Circuit's concordance in this distinction of *Sears*

Rather, the *Morseburg* court analogized the resale royalty as an additional right given to a subject matter of copyright (works of fine art), similar to the state protection, validated in *Goldstein*, given to works inherently not copyrightable at the time (pre-1972 sound recordings).<sup>43</sup>

The Ninth Circuit also decided that neither the section of the 1909 Act giving the copyright owner the exclusive right "to vend"<sup>44</sup> nor the section giving the owner of a particular copy the unrestricted right to transfer that copy<sup>45</sup> impliedly preempted the Royalties Act. Although the court recognized problems attendant with any state *droit de suite* legislation, it did not address potential issues, but rather limited its holding to the royalties act in question. The California Royalties Act did not present problems of excessive royalties or multiple royalties imposed on a single transaction, problems which the court stated might affect the outcome of another preemption argument.

#### *Contracts Clause and Due Process*

The Ninth Circuit rejected plaintiff's other challenges to the constitutionality of the Royalties Act.<sup>46</sup> Plaintiff argued that the Royalties Act rewrote his contracts with the artists from whom he bought paintings. The court admitted that in circumstances in which a buyer had purchased the art prior to passage of the Act, the Royalties Act burdened the buyer of the work with an unbargained for obligation to pay a royalty upon the resale of the work. The court was not persuaded, however, that the burden was significant.<sup>47</sup>

Relying on *United States Trust Co. v. New Jersey*<sup>48</sup> and *Allied Structural Steel Co. v. Spannaus*,<sup>49</sup> the court stated that a state law which insignificantly impairs a contract obligation needs only minor justification. Only when the impairment be-

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and *Compco*.

43. 621 F.2d at 977.

44. 17 U.S.C. § 1(a) (1970).

45. *Id.* § 27.

46. The contracts clause and due process issues will not be discussed in this paper other than in this brief description of the court's analysis of them.

47. 621 F.2d at 979.

48. 431 U.S. 1 (1977).

49. 438 U.S. 234, *reh. denied*, 439 U.S. 886 (1978).

comes severe and irrevocable and serves little or no economic or social purpose does that law violate the contracts clause.<sup>50</sup> In *United States Trust Co.* the Supreme Court found unconstitutional a statute repealing a covenant between the state and bondholders of the Port Authority. The Court required that when state interference with private contracts was challenged, the courts should defer to legislative judgment as to the necessity and reasonableness of a particular measure involving economic and social regulation.<sup>51</sup>

The *Spannaus* court invalidated a portion of a pension benefits statute that required companies closing offices or terminating pension plans to pay an extra pension charge if the money already in the pension fund was insufficient to pay qualified employees. The contracts clause imposes some limits on the power of the state to impair previous contract relationships in the exercise of legitimate police power, but “the severity of the impairment measures the height of the hurdle the state legislation must clear.”<sup>52</sup> The obligation forced upon the plaintiff in *Morseburg* was not so severe as to topple the Royalties Act which served the legitimate state purpose of promoting artistic endeavors.

Plaintiff’s due process argument met with even less success. The Royalties Act, the court stated, did not deprive plaintiff of a fundamental property right. Furthermore, the court found the rational basis for the Royalties Act—the promotion of artistic endeavors—a proper function of the state.<sup>53</sup> Therefore, plaintiff did not meet his burden of showing the Royalties Act irrational or capricious.<sup>54</sup>

Nor did the plaintiff’s assertion that the retroactivity of the Royalties Act removed it from what is normally considered to be

50. 621 F.2d at 979.

51. *United States Trust Co. v. New Jersey*, 431 U.S. 1, 22-23 (1977).

52. *Allied Structural Steel Co. v. Spannaus*, 438 U.S. 234, 250, *reh. denied*, 439 U.S. 886 (1978).

53. 621 F.2d at 978.

54. *Id.* at 979 (citing *Usery v. Turner Elkhorn Mining Co.*, 428 U.S. 1, 15 (1976), which stated, “It is by now well established that legislative acts adjusting the burdens and benefits of economic life come to the Court with a presumption of constitutionality, and that the burden is on one complaining of a due process violation to establish that the legislature has acted in an arbitrary or irrational way.”).

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economic regulation convince the court that the Royalties Act violated plaintiff's right to due process. On the contrary, the court held that legislation is not unlawful merely because it upsets settled expectations. Such legislation would have to cause harsh and oppressive consequences, which the Ninth Circuit found the Royalties Act did not produce.<sup>55</sup>

## D. CRITIQUE

Although the Supreme Court denied a review of the *Morseburg* opinion, it seems clear that the Ninth Circuit mistakenly held that *Goldstein*, a case dealing with state protection of works not copyrightable under federal law, governed *Morseburg*, a case in which the granting of rights to works specifically protected under copyright law was at issue. Rather, *Goldstein* should be interpreted to apply to those situations in which Congress has stayed its hand and has not afforded protection to a particular type of writing.<sup>56</sup> The challenge to the Royalties Act, however, was grounded on the contention that the state attempted to exercise control over writings which Congress itself chose to protect.

If the Royalties Act is applicable to works within the subject matter of the Copyright Act of 1909, then the next issue should be whether the rights provided by the state law conflict with or obstruct the purposes of the federal law. Those rights in controversy are the right to vend<sup>57</sup> and the right of unrestricted transfer of a particular copy of the work.<sup>58</sup>

The court ruled correctly that the Royalties Act does not impair the right to vend under the 1909 Act. Just as a state sales

55. 621 F.2d at 980.

56. *Jacobs v. Robitaille*, 406 F. Supp. 1145, 1153 (D.N.H. 1976). *Jacobs* was a misappropriation case in which the defendant, an ex-employee of plaintiff, started a free classified-ad newspaper strikingly similar in appearance to plaintiff's and using some of plaintiff's ads. In determining the applicability of *Goldstein*, the standard for national interest as mentioned there was whether the writing is copyrightable under federal law. If so, then it is *per se* of national interest. And as long as the writings were copyrightable, the New Hampshire district court continued, a state could not exercise its common law to protect the writings or free them from protection. *Id.* at 1152-53.

57. 17 U.S.C. § 1(a) (1970).

58. *Id.* § 27 states in relevant part that "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."

tax does not restrict the right to sell, the Royalties Act, which no doubt affects the price, does not interfere with the transfer of the title for a consideration to another.

More questionable is the court's position that the requirement to pay a royalty upon resale of a work of fine art is not a restriction on the free right of transfer of that work. Although the court concluded that such a royalty did not "impermissibly restrict"<sup>59</sup> this right, it did not justify its conclusion. Congress particularly intended to foreclose any control over the article which is the subject of the copyright by the copyright owner after the owner makes the first sale.<sup>60</sup> A royalty due to the artist, therefore, unlike a sales tax, would appear to conflict with federal legislation. Under this rationale, the Royalties Act would be preempted by federal copyright law.

*Preemption of the Royalties Act under the Copyright Revision Act of 1976*

The 1976 Act exclusively governs rights "equivalent to any of the exclusive rights"<sup>61</sup> given in other sections of the Act and applicable to the subject matter of copyright, as are works of fine art.

The *droit de suite* may be parallel protection, different from copyright because it gives the artist a continuing financial interest in the most profitable aspect of his or her endeavors—the resale of the original work itself—rather than in the reproduction from which authors and songwriters profit. Because of this difference in the character of works of fine art and other works of authorship, works of fine art should fall outside the scope of that part of the 1976 Act which gives the owner of a particular copy the free right to dispose of that copy.<sup>62</sup> Under this view,

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59. 621 F.2d at 978.

60. H.R. REP. NO. 2222, 60th Cong. 2d Sess. (1909), reprinted in 4 M. NIMMER, COPYRIGHT at app. 13-25 (1980). The first sale doctrine provides that when a copyright owner, in this case an artist, parts with title to a particular piece of work he also divests himself of the exclusive right to sell that piece of work. The exclusive right to sell that piece of work then rests with the buyer. See, e.g., *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977).

61. 17 U.S.C. § 301(a)(1976). These exclusive rights enumerated in 17 U.S.C. § 106 are the rights to reproduce, distribute, perform, display the work publicly, and to prepare derivative works.

62. 17 U.S.C. § 109(a)(1976). This section is merely a rewrite of § 27 of the 1909 Act.

federal law should not preempt state *droit de suite* legislation. On the other hand, the purpose of the 1976 Act, and of the preemption section in particular, a section the House Committee on the Judiciary called a "bedrock provision,"<sup>63</sup> is to promote a uniform national system of copyright protection, which would further the basic constitutional aims of promoting writing and scholarship.<sup>64</sup> The report stated: "The preemption of rights under State law is complete with respect to any work coming within the scope of the bill even though the scope of exclusive rights given the work . . . is narrower than the scope of common law rights in the work might have been."<sup>65</sup>

The analysis of the courts with respect to whether a particular common law right is preempted under the 1976 Act should no longer be so dependent on the same occupation of the field and conflict considerations used under the 1909 Act in *Morseburg* and earlier preemption cases. Under the 1976 Act, Congress has attempted to occupy the field of copyright completely once a work has been fixed in a tangible medium of expression—as has any painting, drawing or sculpture.<sup>66</sup> State *droit de suite* legislation pertaining to works of fine art would only be valid if the rights it afforded were different from any of the rights granted by the federal copyright laws. In other words, even state laws harmonious with the federal scheme would be preempted if they grant protections equivalent to those in the 1976 Act.

Further, even some proponents of *droit de suite* recognize that it is a pecuniary right, "part of the author's copyright."<sup>67</sup> So as federal law is presently written, the 1976 Copyright Act should preempt the California Resale Royalties Act.

Nancy M. Lashnits\*

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A "copy" means the original work or a copy of the work. 17 U.S.C. § 101 (1976).

63. NOTES OF THE COMMITTEE ON THE JUDICIARY, H.R. REP. No. 1476, 94th Cong. 2d Sess. 129 (1976).

64. *Id.*

65. *Id.* at 131.

66. 17 U.S.C. § 102 (1976).

67. Schulder, *Art Proceeds Act*, 61 Nw. L. Rev. 19, 22 (1966-67), note 28 *supra*.

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