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Capitol Records, Inc. v. Naxos of Am., Inc.

4 N.Y.3d 540 (NY 2005)

Graffeo, J.

Sound recordings produced after February 15, 1972 can be protected from infringement under federal copyright law but Congress did not extend statutory protection to recordings created before that date. In a certified question, the United States Court of Appeals for the Second Circuit asks us whether there is common-law copyright protection in New York for sound recordings made prior to 1972.

This case involves a dispute between two music recording companies. Capitol Records, Inc. owns the rights to several classical recordings made in the 1930s. Naxos of America, Inc. copied those recordings from the original shellac record format and, using technological advances, remastered the recordings for sale to the public as compact discs. Naxos did not request permission from Capitol to use the recordings. The issue here is whether Capitol may maintain a copyright infringement action against Naxos premised on the common law of New York. Because the answer to this question will have significant ramifications for the music recording industry, as well as these litigants, we were offered and accepted certification.

I. Factual and Procedural Background

During the 1930s, the Gramophone Company Limited, currently known as EMI Records Limited--the parent company of Capitol--recorded classical musical performances of three world-renowned artists: Yehudi Menuhin's July 1932 performance of Edward Elgar's "Violin Concerto in B minor, Opus 61"; Pablo Casals' performances of J.S. Bach's cello suites, recorded between November 1936 and June 1939; and Edwin Fischer's performances of Bach's "The Well Tempered Clavier, Book I," recorded between April 1933 and August 1934, and of Bach's "The Well Tempered Clavier, Book II," recorded between February 1935 and June 1936. The artists' contracts specified that Gramophone would have absolute, worldwide rights to the performances, including the right to reproduce and sell copies of the performances to the public.

Gramophone recorded all of the performances in England. At that time, the United Kingdom provided statutory copyright protection to sound recordings for 50 years (*see* UK Copyright Act of 1911, 1 & 2 Geo 5, ch 46, § 19). Thus, all of the Gramophone recordings at issue had entered the public domain in the United Kingdom by 1990.

In 1996, subsidiaries of EMI entered into a series of agreements whereby Capitol was granted an exclusive license to exploit the Gramophone recordings in the United States. Using

modern electronic methods, Capitol remastered the original recordings to improve their audio quality and transferred them to digital format for sale to the public.

Naxos also wished to preserve these important historical recordings. It located copies of the original 1930s shellac recordings and undertook its own multistep restoration process in the United Kingdom. The remastered compact disc versions produced by Naxos were distributed for sale in the United States beginning in 1999, competing with the compact disc products marketed by Capitol. Naxos never obtained a license from Capitol and rebuffed Capitol's demand to cease and desist the sale of the Naxos compact discs.

Capitol commenced an action against Naxos in the United States District Court for the Southern District of New York in 2002. The complaint set forth claims of common-law copyright infringement, unfair competition, misappropriation and unjust enrichment, all of which were premised on the law of the State of New York, the situs of the alleged infringement. Naxos moved to dismiss for failure to state a claim, arguing that the recordings had entered the public domain in the United Kingdom and, hence, the United States as well. Capitol moved for, among other relief, partial summary judgment on liability.

The District Court granted summary judgment to Naxos. The court characterized Capitol's cause of action as a "hybrid copyright, unfair competition" claim and concluded that Capitol did not have intellectual property rights in the original recordings because its copyrights had expired in the United Kingdom. With respect to the unfair competition cause of action, the District Court opined that the Naxos recordings were not a "duplicate" or "imitation" of the original recordings but "an entirely new and commercially viable product" because the original shellac records were obsolete and Naxos had removed "numerous sound imperfections" from the records. Finding that public policy favored the preservation and redissemination of classical performances, the court held that Capitol failed to show that Naxos had engaged in the type of bad faith required to sustain an unfair competition cause of action. In a second written decision, the court adhered to its ruling.

On appeal, the Second Circuit determined that this case raises several unsettled issues of New York law. After noting that, under federal law, "it is entirely up to New York to determine the scope of its common law copyright with respect to pre-1972 sound recordings," the Second Circuit certified the following question to this Court: "In view of the District Court's assessment of the undisputed facts, but without regard to the issue of abandonment, is Naxos entitled to defeat Capitol's claim for infringement of common law copyrights in the original recordings?" We are also asked to answer three questions:

> "(1) 'Does the expiration of the term of a copyright in the country of origin terminate a common law copyright in New York?' (2) 'Does a cause of action for common law copyright infringement include some or all of the elements of unfair

> competition?' (3) 'Is a claim of common law copyright infringement defeated by a defendant's showing that the plaintiff's work has slight if any current market and that the defendant's work, although using components of the plaintiff's work, is fairly to be regarded as a "new product"?' "
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III. Development of American Copyright Law

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[In] *Wheaton v Peters* (8 Pet [33 U.S.] 591 [1834]), [t]he plaintiff, who had been the third official reporter for the United States Supreme Court, invoked statutory and common-law copyright claims to prevent his successor from copying and republishing material contained in the volumes published by the first three official reporters . . . The Supreme Court, with two Justices dissenting. . . held that Wheaton could not maintain a common-law copyright cause of action. . . . The majority acknowledged that the common law insured copyright protection prior to publication but believed that in the absence of federal common law under our constitutional system, a party seeking common-law protection must look to the state where the controversy arose. . . .

The lasting effect of the *Wheaton* decision was that it "became accepted, and in most cases unquestioned, doctrine that . . . it was the act of publication which divested common law rights" [Citation.] New York courts also adhered to this view with regard to literary works, declaring the "settled" principle that "a statutory copyright operates to divest a party of the common-law right" [Citations.]

With the dawn of the 20th century, courts throughout the country were confronted with issues regarding the application of copyright statutes, which were created with sole reference to the written word, to new forms of communication. One of the first such challenges involved music. In *White-Smith Music Publ. Co. v Apollo Co.* (209 U.S. 1 [1908]), the United States Supreme Court was asked to determine whether the federal Copyright Act encompassed perforated rolls of music used in player pianos. Although acknowledging that the federal statute had been amended as far back as 1831 to include "musical composition[s]," the Court believed that only written works that could be "see[n] and read" met the requirement for filing with the Library of Congress--a prerequisite to securing federal copyright protection. Because the music rolls were incapable of being read by a person, the Court concluded that federal statutory protection for "copies or publications of the copyrighted music" did not extend to music rolls.

Following the *White-Smith* decision, Congress passed the Copyright Act of 1909. . . . To insure that the 1909 Act would not be interpreted to deny any existing common-law protection, Congress explicitly stated that the Act "shall [not] be construed to annul or limit the right of the

author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor" (17 USC § 2, added by 35 US Stat 1076 [1909]). Congress therefore confirmed that, although sound recordings were not protected under federal law, there was nothing to prevent the states from guaranteeing copyright protection under common law.

State courts then had to deal with the operation of this dual system of copyright protection. In *Waring v WDAS Broadcasting Sta.* (327 Pa. 433 [1937]), the plaintiff, a conductor and owner of an orchestra, had contracted with a phonograph company to produce recordings of the orchestra's performances to be sold to phonograph dealers and the public. To avoid interfering with a different contract the orchestra had for weekly radio broadcasts of live performances, the record labels contained a printed warning that they were "[n]ot licensed for radio broadcast." The plaintiff sued to prevent the owner of a radio station from broadcasting the recorded performances over the airwaves.

The Supreme Court of Pennsylvania found that the records were protected by state common law. Beginning with the premise that sound recordings were not copyrightable under federal law, the court explained:

> "[a]t common law, rights in a literary or artistic work were recognized on substantially the same basis as title to other property. Such rights antedated the original copyright act of 8 Anne c. 19, and, while it has been uniformly held that the rights given by the act supersede those of the common law so far as the act applies . . . the common-law rights in regard to any field of literary or artistic production which does not fall within the purview of the copyright statute are not affected thereby" (327 Pa. at 439, 194 A. at 634).

The court declared that a performer who transforms a musical composition into a sound product creates "something of novel intellectual or artistic value [and] has undoubtedly participated in the creation of a product in which he is entitled to a right of property" (327 Pa. at 441, 194 A. at 635). Even if the common law offered protection to sound recordings only to the point of first publication, the court held that the sale of records was not a publication of the work that operated to divest the orchestra [*554] of its common-law property right because the phonograph records had been marked "[n]ot . . . for radio broadcast," which indicated that the manufacturer did not intend, by the sale alone, to make the records the " 'common property' " of the public (327 Pa. at 443, 194 A. at 636, quoting *American Tobacco Co. v Werckmeister*, 207 U.S. 284, 300 [1907]).

A similar dispute arose in New York in *Metropolitan Opera Assn. v Wagner-Nichols*

Recorder Corp. (199 Misc. 786 [Sup Ct, NY County 1950], *affd* 279 A.D. 632 [1st Dept 1951]). The plaintiff's operatic performances had been broadcast on radio and records of the performances were sold to the public. The defendant copied those performances and created its own records for sale. In granting an injunction preventing the sale of the defendant's records, the trial court observed that "[a]t common law the public performance of a play, exhibition of a picture or sale of a copy of the film for public presentation did not constitute an abandonment of nor deprive the owner of his common-law rights" (199 Misc. at 798). Far from expressing an intent to commit intellectual property to the public domain, the court determined that an owner who grants exclusive rights to record a performance to a particular company "shows clearly no intent to abandon but, on the contrary, an attempt to retain effective control over the . . . recording of its performances" (*id.* at 799). Thus, the court characterized the public sale of a sound recording as a "limited publication" that did not divest a composer or artist of common-law copyright protection (*id.*).

A contrary view was initially expressed by the Second Circuit in *RCA Manuf. Co. v Whiteman* (114 F.2d 86 [2d Cir 1940], *cert denied* 311 U.S. 712, 85 L. Ed. 463, 61 S. Ct. 393 [1940]). The court concluded that the sale of a record to the public is a general publication that ends common-law copyright protection. But the Second Circuit reconsidered this rule after *Metropolitan Opera* and subsequently stated that *RCA Mfg.* was "not the law of the State of New York" (*Capitol Records v Mercury Records Corp.*, 221 F.2d 657, 663 [2d Cir 1955]). Instead, the court announced that the appropriate governing principle was that "where the originator, or the assignee of the originator, of records of performances by musical artists puts those records on public sale, his act does not constitute a dedication of the right to copy and sell the records" (*id.*).[7] *Capitol Records v Mercury Records* was consistent with the long-standing practice of the federal Copyright Office and became the accepted view within the music recording industry [citations].

The *Waring*, *Metropolitan Opera* and *Capitol Records* decisions may appear to conflict with the accepted principle that a public sale of a literary work is a "general publication" terminating a common-law copyright, and any copyright protection thereafter must be derived from statute. But the historical distinction in the treatment of literary and musical works by Congress accounts for the lack of federal statutory copyright protection for sound recordings. In the absence of protective legislation, Congress intended that the owner of rights to a sound recording should rely on the "broad and flexible" power of the common law to protect those property rights after public dissemination of the work. As *Metropolitan Opera* so aptly observed more than five decades ago, the common law "has allowed the courts to keep pace with constantly changing technological and economic aspects so as to reach just and realistic results."

In recent times, state legislatures have found common-law remedies inadequate to deter

7 This rule was reaffirmed in *Rosette v Rainbo Record Mfg. Corp.* (546 F.2d 461 [2d Cir 1976], *affg* 354 F. Supp. 1183 [SD NY 1973]).

the widespread prevalence of "music piracy." By the 1970s, the technological ease of reproducing existing recordings for resale without securing authorization had motivated about one half of the state legislatures, including New York. . ., to adopt criminal statutes prohibiting such piracy. . . Spurred by the action of the states, Congress finally responded in 1971 and amended the Copyright Act of 1909 to expressly include "[s]ound recordings" within the classes of artistic and intellectual works entitled to federal copyright . But the 1971 amendments were prospective only, so recordings created before February 15, 1972--the effective date of the amendment--were not protected by federal law. During the drafting of the amendment, debate arose concerning the scope of protection to be afforded to pre-1972 sound recordings. Both the Senate and the House of Representatives recognized that decisional law had allowed sound recordings to be "protected by State statute or common law." The Senate was content to permit the states to provide perpetual protection to pre-1972 sound recordings, but the House objected .The two houses eventually reached a compromise, deciding that existing state common-law copyright protection for pre-1972 recordings would not be preempted by the new federal statute until February 15, 2047--75 years after the effective date of the 1971 amendment (*see* 17 USC § 301 [c] [1976]). [8]

The 1971 amendments raised new problems for the music recording industry. Because the status of pre-1972 sound recordings was a matter left to the states, there was uncertainty as to how claims of copyright infringement would be treated in different jurisdictions. The amendments also did not include a technical definition of the term "publication," which clouded the meaning of that term of art in the recording industry. Finally, there was concern that the amendments could be read as abrogating existing state statutes proscribing music piracy.

Initial guidance came from the United States Supreme Court in *Goldstein v California* (412 U.S. 546 [1973]). The defendant, convicted of criminal music piracy, challenged the constitutionality of a California penal statute on the grounds that it conflicted with the Copyright Clause, the Supremacy Clause and the federal copyright act by "establish[ing] a state copyright of unlimited duration" (*id.* at 551). Rejecting the defendant's claim, the Court noted that "[a]lthough the Copyright Clause . . . recognizes the potential benefits of a national system, it does not indicate that all writings are of national interest or that state legislation is, in all cases, unnecessary or precluded" (*id.* at 556-557). . . .

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In the aftermath of *Goldstein*, Congress rectified some of the problems that erupted with the 1971 amendment of the Copyright Act. A major revision and restructuring of the Act occurred in 1976 and took effect in 1978. Included among the amendments was a statutory definition of "publication," now defined to include "the distribution of copies or phonorecords of a work to the

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8[8] The preemption date was later extended by 20 years, to February 15, 2067 (*see* Pub L 105-298, 112 US Stat 2827 [105th Congress, 2d Sess, Oct. 27, 1998] [termed the "Sonny Bono Copyright Term Extension Act"], amending 17 USC § 301 [c]).

public by sale or other transfer of ownership" (17 USC § 101). This definition applied prospectively only, thereby continuing to exclude pre-1972 recordings from the scope of the statute. Congress again left to the states the decision how to handle the meaning and effect of "publication" for pre-1972 sound recordings.

The music industry's belief that state common law could provide copyright protection for pre-1972 recordings (until the date of federal preemption), without regard to the "publication" or sale of recordings, was undermined by the Ninth Circuit in *La Cienega Music Co. v ZZ Top* (53 F.3d 950 [9th Cir 1995]. This controversy pitted the owner of certain John Lee Hooker recordings against the band ZZ Top, which allegedly performed a top-selling song that was similar to earlier performances by Hooker. ZZ Top defended on the ground that any common-law protection was extinguished when the Hooker recordings were "published," i.e., released for sale to the public. This contention challenged the Second Circuit holdings in *Capitol Records* (221 F.2d 657 [1955]) and *Rosette* (546 F.2d 461 [1976])--the only other United States Court of Appeals to have addressed the issue. The defendants in *La Cienega* were successful in convincing the Ninth Circuit not to adopt the rationale of the Second Circuit, and the court therefore held that public sale of a pre-1972 sound recording is a publication that divests the owner of common-law copyright protection.

. . . .Congress reacted to *La Cienega* by amending section 303 of the federal Copyright Act to clarify that "[t]he distribution before January 1, 1978, of a phonorecord shall not for any purpose constitute a publication of the musical work embodied therein" (17 USC § 303 [b]). . . . .Congress had confirmed that sound recordings created before 1972 could be eligible for common-law copyright protection until federal preemption of state law in 2067.

IV. The Scope of Common-Law Copyright Protection in New York

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As earlier discussed, federal copyright statutes in the early 20th century encompassed only written musical compositions, not sound recordings (*see White-Smith Music Publ. Co. v Apollo Co.*, 209 U.S. at 18). Because the federal Copyright Act did not protect musical recordings, state common law could supply perpetual copyright protection to recordings without regard to the limitations of "publication" under the federal act (*see Goldstein v California*, 412 U.S. at 560-561, 570). It is clear that both the judiciary and the State Legislature intended to fill this void by protecting the owners of sound recordings in the absence of congressional action (*see Rosette v Rainbo Record Mfg. Corp.*, 546 F.2d 461 [1976]; *Capitol Records v Mercury Records Corp.*, 221 F.2d 657 [1955]; *Metropolitan Opera Assn. v Wagner-Nichols Recorder Corp.*, 199 Misc. 786[1950]; *Firma Melodiya v ZYX Music GmbH*, 882 F. Supp. 1306, 1316 n 14 [SD NY 1995]; *see also* Penal Law art 275; Arts & Cultural Affairs Law § 31.01; General Business Law former § 561 [L 1967, ch 680, § 59]; Penal Law former § 441-c [L 1966, ch 988]).

With the 1971, 1976 and subsequent congressional amendments to the federal Copyright Act, New York common-law protection of sound recordings has been abrogated, but only in two respects. First, the common law does not apply to any sound recording fixed, within the meaning of the federal act, after February 15, 1972, because recordings made after that date are eligible for federal statutory copyright protection. Second, state common-law copyright protection is no longer perpetual for sound recordings not covered by the federal act (those fixed before February 15, 1972), because the federal act mandates that any state common-law rights will cease on February 15, 2067. The musical recordings at issue in this case, created before February 15, 1972, are therefore entitled to copyright protection under New York common law until the effective date of federal preemption--February 15, 2067.

Even assuming, however, that common-law copyright protection ceases upon "first publication" without regard to the existence of an applicable statute covering the type of literary or artistic work at issue, our common law would continue to protect sound recordings made before 1972.

The evolution of copyright law reveals that the term "publication" is a term of art that has distinct meanings in different contexts. With regard to literary works, it has long been the rule that common-law protection ends when a writing is distributed to the public [citations], because it is at that point that federal statutory copyright protection controls [citation]. In contrast, in the realm of sound recordings, it has been the law in this state for over 50 years that, in the absence of federal statutory protection, the public sale of a sound recording otherwise unprotected by statutory copyright does not constitute a publication sufficient to divest the owner of common-law copyright protection [citations].

V. The Certified Questions

Having concluded that the musical recordings here are presumptively entitled to common-law copyright protection in New York, we proceed to address the three sub-questions posed by the Second Circuit.

First: "Does the expiration of the term of a copyright in the country of origin terminate a common law copyright in New York?"

When the recordings here were created in England, they received statutory copyright protection in the United Kingdom (UK) for 50 years after the date of creation (*see* Copyright Act of 1911, 1 & 2 Geo 5, ch 46, § 19). As a result, the UK copyrights for all of the recordings expired by the 1990s--years before Naxos's allegedly infringing actions. Naxos argues, and the District Court apparently agreed, that the expiration of the foreign copyrights prevents the enforcement of copyright protections in other jurisdictions, including the United States and New York. We disagree and concur with the Second Circuit's observation that "nothing in federal law denies Capitol enforceable rights in the original recordings simply because the U.K. copyrights have

expired."

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Second: "Does a cause of action for common law copyright infringement include some or all of the elements of unfair competition?"

We understand this question to ask whether the District Court was correct to assume that some type of malicious intent or bad faith is a necessary element of a state common-law copyright infringement claim. A copyright infringement cause of action in New York consists of two elements: (1) the existence of a valid copyright; and (2) unauthorized reproduction of the work protected by the . . . In response to the second subquestion, we hold that the causes of action for copyright infringement and unfair competition are not synonymous under New York law.

Third: "Is a claim of common law copyright infringement defeated by a defendant's showing that the plaintiff's work has slight if any current market and that the defendant's work, although using components of the plaintiff's work, is fairly to be regarded as a 'new product'?"

We begin by noting that Naxos does not contend that "market size" or "new product" issues are relevant to the existence of a common-law copyright regarding sound recordings. Its discussion of those terms is limited to the context of an unfair competition cause of action. In any event, the ability to enforce copyright protections provided by New York common law is not diminished due to the size of the market and, therefore, the popularity of a product does not affect a state common-law copyright infringement claim. . . .We conclude that the third subquestion should be answered in the negative.

VI. Conclusion

In light of our responses to these inquiries and our conclusion that state common law protects ownership interests in sound recordings made before 1972 that are not covered by the federal Copyright Act, the answer to the main certified question is that, without regard to the issue of abandonment, Naxos is not entitled to defeat Capitol's claim for infringement of common-law copyright in the original recordings. Accordingly, the certified question should be answered in the negative.