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I. INTRODUCTION

When buyers purchase copyright-protected goods, U.S. federal law dictates certain things they can and cannot do with them. They can, for example, sell the goods to another or create a parody thereof, but they cannot create multiple copies for commercial exploitation. Indeed, as the Supreme Court also noted,[1] copyright law creates a delicate balance between the rights of owners and users.

But then contract law intervenes. At its core, contract law does not promote any specific balance between parties but just enforces their own arrangements. The driving force of contract law is consent. When it comes to copyrighted goods, the parties can create their own allocation of rights.

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1. *See, e.g.*, Kirtsaeng v. John Wiley & Sons, 579 U.S. 197, 198 (2016).

Contract law even goes a step further and allows one party to set forth its arrangements through standard-form agreements.

This tension between the perception of copyright law as promoting Congress's delicate balance between conflicting interests and contract law's deeply rooted laissez-faire philosophy, can raise the possibility of preemption. And indeed, for the last few decades, the primary legal mechanism for potentially scrutinizing contracts over copyrighted goods was the doctrine of copyright preemption, particularly the Copyright Act's express preemption provision.[2] In hundreds of decisions, courts were asked to hold contracts unenforceable as arguably expressly preempted by the Copyright Act.

In previous works, I explored this tension and the long line of cases dealing with it.[3] I argued that, with minor exceptions, courts are no longer willing to use the Copyright Act's express preemption mechanism to scrutinize contracts. I showed that one federal circuit court, the Sixth Circuit, is an outlier, and even that court refused to enforce a contract on those grounds only once. I further claimed that the harm from litigated contracts over copyrighted goods is surprisingly relatively modest and that only contracts between sophisticated parties were being litigated. Part I of this Essay briefly explores this tension between copyright and contracts and the general refusal among most circuit courts to scrutinize them pursuant to the express preemption doctrine.

But unexpectedly, the status quo was recently undermined. In two decisions, the Second Circuit, one of the two most important circuit courts within copyright law, held, for the first time, contracts expressly preempted by the Copyright Act.[4] Refusing to enforce two contracts is more than all other circuit courts have done in the entire history of the Copyright Act of 1976. A Petition for a Writ of Certiorari concerning the latest of those decisions is currently pending before the Supreme Court. It remains to be seen if this is the start of an era where contracts will be routinely scrutinized by the Second Circuit (and the important Southern District of New York within its jurisdiction). Part II of this Essay explores those two recent opinions in depth and points out their weaknesses and the gaps in the analysis they provide. It shows that in those opinions, the

2. 17 U.S.C. § 301 (2018).

3. *See, e.g.*, Guy A. Rub, *Copyright Survives: Rethinking the Copyright-Contract Conflict*, 103 VA. L. REV. 1141 (2017) [hereinafter *Copyright Survives*]; Guy A. Rub, *Contracting Around Copyright: The Uneasy Case for Unbundling of Rights in Creative Works*, 78 U.CHI. L. REV. 257 (2011).

4. ML Genius Holdings LLC v. Google LLC, No. 20–3113, 2022 WL 710744, at * 4 (2d Cir. Mar. 10, 2022), *petition for cert. filed*, No. 22-121, 2022 WL 710744 (Aug. 9, 2022); Universal Instruments Corp. v. Micro Sys. Eng'g, Inc., 924 F.3d 32, 48–49 (2d Cir. 2019).

Second Circuit might not have fully appreciated the significance of its holdings and their potential implications, especially as it adopted a formalistic test that seems detached from any identifiable federal law policy.

Interestingly, in another recent decision,[5] the Second Circuit adopted a framework for using another form of preemption—conflict preemption—in copyright-related disputes. Part III of this Essay built on that decision to show why conflict preemption is more appropriate to potentially scrutinize breach of contract claims, primarily as it introduces much-needed flexibility into the preemption analysis. It shows that because contracts rarely undermine federal copyright policy, preemption should apply only in unusual cases, particularly when the plaintiff uses standard-form agreements to promote goals similar to those of copyright law in a way that clearly undermines copyright policy.

II. THE (OLD?) STATUS-QUO IN DEALING WITH THE COPYRIGHT-CONTRACT TENSION

The tension between contract and copyright law has been troubling for decades. On the one hand, copyright law promotes the creation and dissemination of works of authorship by prohibiting certain actions with respect to certain works and allowing other actions.[6] On the other hand, contract law allows parties to create their own legally-enforceable norms. Contracts therefore can allow what copyright law prohibits and prohibits what copyright law allows. Standard-form agreements amplify this tension. As a technical matter, standard-form agreements are just like any other contracts that become binding through the process of offer and acceptance. However, in practice, those non-negotiable arrangements are so broad and can be binding on so many people that they often look more like a regulatory scheme or a property right.[7] Therefore, when copyrighted-good providers require all their buyers to agree to standard-form agreements that create arrangements that differ from copyright law, one may be concerned that contracts might be able to recreate and reshape copyright law's arrangements.

This tension is, in some respects, rooted in different narratives used to describe copyright law. At times, copyright law is described as a system of "delicate balances" between the interests of different stakeholders

5. *In re* Jackson, 972 F.3d 25, 34–42 (2d Cir. 2020).

6. 17 U.S.C. § 106.

7. *See, e.g.*, Henry E. Smith, *Modularity in Contracts: Boilerplate and Information Flow*, 104 MICH. L. REV. 1175, 1175 (2006).

(authors, distributors, users, and so on). The Supreme Court, for example, stated that:

> The limited scope of the copyright holder's statutory monopoly . . . reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.[8]

If that is our perception of copyright law, then it might make sense to defend that delicate balance (e.g., the nuances of the fair use defense caselaw) from easy alteration through contract law.

On the other hand, copyright is sometimes described as a legal system that creates property rights in certain works for authorship. The Supreme Court stated that "copyright is an exclusive right . . . for the benefit of the author or his assigns . . . a property in notion."[9] Property law creates initial arrangements that parties can, relatively freely, deviate from and trade on. If property law gives Alice an ownership interest in her used car and Bob an ownership interest in $5,000 in cash, then, subject to minimal restrictions, Alice and Bob are free to trade their interests. Is it any different if Alice trades some of her fair use rights for free access to Bob's work?[10] Indeed, contracts, and more generally trade, are crucial pillars in a property-law-based system.

As a practical matter, for the last few decades, the clash between copyright and contract was channeled through the Copyright Act's expressed preemption doctrine. The Copyright Act of 1976 included, for the first time, an express preemption provision:

> [A]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106

8. Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975); *see also* Kirtsaeng v. John Wiley & Sons, 579 U.S. 197, 198 (2016) (Copyright "strik[es] a balance between encouraging and rewarding authors' creations and enabling others to build on that work."); Sony Corp. of Am. v. Universal City Studios, 464 U.S. 417, 429 (1984) ("Congress['s] . . . task involves a difficult balance between the interests of authors . . . in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand . . . .").

9. Stephens v. Cady, 55 U.S. 528, 530 (1852); *see also* Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 347 (1908); Am. Tobacco Co. v. Werckmeister, 207 U.S. 284, 298–99 (1907); Justin Hughes, *Copyright and Incomplete Historiographies: Of Piracy, Propertization, and Thomas Jefferson*, 79 S. CAL. L. REV. 993, 1008–09 (2006) (exploring three centuries of referring to copyright law as property in both England and later in the United States).

10. *See* Frank H. Easterbrook, *Contract and Copyright*, 42 HOUS. L. REV. 953, 961 (2005) (claiming that the most we can hope for is for copyright law "to create a framework—that is, to endow authors with a set of property rights—and let people work out the details for themselves").

> in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 . . . are governed exclusively by this title.[11]

Indeed, section 301(a) has become a common defense against breach of contract claims when the contract touches upon information goods. For example, consider an agreement between Alice, who came up with a creative idea for a movie, and Bob, a movie producer, who promised to compensate Alice if she disclosed her idea and if he later used it. This is an easy case as a matter of contract law, but is the contract preempted as a matter of copyright law because it creates a right equivalent to copyright to control the distribution of ideas that are explicitly unprotected by copyright?[12]

In a previous work, I explored the history of the express preemption doctrine as it applies to contracts.[13] That work suggests that until the early 1990s, the caselaw lacked rigorous reasoning. In the early 1990s, two approaches started to emerge. One approach suggested that contracts can never create a right equivalent to copyright because contracts create *in personam* rights between the contracting parties while copyright creates *in rem* rights against the world. A competing approach suggested that courts should look at the content of the contract and examine whether the actual contractual promises include limitations on any action that is an exclusive right under copyright law—in other words, did the parties promise to limit the reproduction, distribution, public performance, or public display of creative works—and if the answer is positive, the contract should be preempted.

The watershed moment in the development of this area of the law came with the 1996 Seventh Circuit decision in *ProCD v. Zeidenberg*.[14] In that famous (or infamous) opinion, authored by Judge Frank Easterbrook, the Seventh Circuit enforced a standard-form agreement prohibiting the defendant from copying a phone directory that the plaintiff spent millions putting together.[15] The contract was held enforceable, notwithstanding a relatively new (at the time) Supreme Court's decision holding that mass labor does not make factual databases protected by

11. 17 U.S.C. § 301(a).

12. 17 U.S.C. § 102(b) ("In no case does copyright protection for an original work of authorship extend to any idea."). Those common contracts over ideas, which might be express or implied, are called *Desny* claims after *Desny v. Wilder*, 299 P.2d 257 (Cal. 1956), which recognized an implied-in-fact contract under those circumstances. Defendants in *Desny* claims often argue that they are expressly preempted by copyright, but courts rarely agree.

13. *Copyright Survives*, *supra* note 3.

14. 86 F.3d 1447 (7th Cir. 1996).

15. *Id.* at 1455.

copyright—a decision that interestingly also dealt with a massive collection of phone numbers.[16] The Seventh Circuit not only decided that this specific contract was enforceable, but its broad reasoning—focusing on the nature of contracts as creating bilateral rights—made it clear that it applies to all contracts, and that none of them will be considered equivalent to copyright and thus expressly preempted.[17]

While Judge Easterbrook wasn't the first to hold that contracts are excluded from express preemption, not even among circuit courts,[18] the attention his opinion received was out of the ordinary, and this rule is often identified with *ProCD*. Dozens of articles and books criticized this decision and the harm it would surely cause to copyright law.[19] Professor Randy Picker, for example, called *ProCD* "the opinion that the copyright casebooks love to hate."[20] Specifically, the concern was that copyright right-holders would trump and replace copyright law with their own standard-form agreements, which would set forth user-unfriendly terms. David Nimmer, the author of the influential treatise, NIMMER ON COPYRIGHT, seemed to have reflected the broad consensus when he suggested that the *ProCD* approach might be "the death of copyright."[21] Fair use, in particular, seemed to be on its dying breath.

But with minor exceptions, courts seemed unimpressed, to say the least, by those dire warnings. In fact, in the 20 years that followed *ProCD*, contracts were rarely held preempted. Indeed, the vast majority of courts which dealt with a preemption claim concerning contracts, including the Fifth, Seventh, Eleventh, and Federal Circuits, and probably the Ninth Circuit (and, by some measures, the Fourth and the Eight Circuits as well), adopted the *ProCD* approach and held that contracts could never be expressly preempted.[22]

16. Feist Publ'n v. Rural Tel. Serv. Co., 499 U.S. 340 (1991).

17. *ProCD*, 86 F.3d at 1455 ("[A] simple two-party contract is not 'equivalent to any of the exclusive rights within the general scope of copyright' and therefore may be enforced").

18. *See* Taquino v. Teledyne Monarch Rubber, 893 F.2d 1488, 1501 (5th Cir. 1990) (holding that contracts are never preempted).

19. *See, e.g.*, MARGARET J. RADIN, BOILERPLATE: THE FINE PRINT, VANISHING RIGHTS, AND THE RULE OF LAW 39–50, 168–76 (2013); Yochai Benkler, *Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 N.Y.U. L. REV. 354, 429–35 (1999); Wendy J. Gordon, *Intellectual Property as Price Discrimination: Implications for Contract*, 73 CHI.-KENT L. REV. 1367, 1381–86 (1998); Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111, 128–33, 147–50 (1999).

20. Randal C. Picker, *Easterbrook on Copyright*, 77 U. CHI. L. REV. 1165, 1178 (2010).

21. David Nimmer, Elliot Brown & Gary N. Frischling, *The Metamorphosis of Contract into Expand*, 87 CAL. L. REV. 17, 20 (1999)

22. *Copyright Survives*, *supra* note 3, at 1179–85 (exploring the caselaw).

I previously observed that the impact of this powerful trend toward enforceability turned out to be different from the early predictions of most scholars. First, all the decided cases were litigated between sophisticated parties and businesses that were familiar with, or at least should have been familiar with, the terms of the contracts they entered.[23] In fact, in most of those cases, the contracts in question were fully negotiated. Second, most of those contracts did not tackle the most sensitive parts of copyright policy.[24] For example, fair use, except for two cases concerning reverse engineering, was not in question in any of those cases. As a result, the overall harm that contract law caused to copyright law policy seemed minimal.

This result, I argued, was not surprising. Copyright law is simply not an effective tool to control the use of information goods by the masses.[25] The need to prove privity, the limitation on remedies, and the lack of second liability doctrines in contract law make it ineffective in impacting a large number of potential small breaches. Contract law is much more effective when large businesses sue other large businesses.[26]

III. THE SECOND CIRCUIT BRINGS THE COPYRIGHT-CONTRACT TENSION BACK TO LIFE

Just a few years ago, the law's trajectory seemed clear. Defendants in contract claims still tried to argue that the contracts they breached were preempted. But those claims were, for the most part, rejected. The Sixth Circuit was the only circuit court that explicitly rejected the *ProCD* approach, and even that court had actually held a contract preempted only once.[27]

But, until recently, the highly influential Second Circuit stayed on the sidelines. Within its jurisdiction, the views were mixed within the all-important Southern District of New York. The two leading approaches in that court were formed just within a few months of the Seventh Circuit opinion in *ProCD*. In April 1996, in *American Movie Classics v. Turner Entertainment*, in a long and well-reasoned opinion, the Southern District held that "a breach of contract claim is preempted if it is merely based on

23. *Id.* at 1200–02.

24. *Id.* at 1205–06.

25. *Id.* at 1211–16.

26. In other contexts, contract law, and in particular standard-form agreements, impact individuals as well. For example, corporations often bury waivers of liability deep in their form agreements, and courts typically enforce those waivers. But this issue, as important as it is in other contexts, is irrelevant here.

27. Ritchie v. Williams, 395 F.3d 283, 286–91 (6th Cir. 2005).

allegations that the defendant did something that the copyright laws reserve exclusively to the plaintiff (such as unauthorized reproduction, performance, distribution, or display)."[28] A few months later, in *Architectronics v. Control Systems*, another long and well-reasoned opinion, the Southern District held that a "breach of contract . . . is not equivalent to copyright protection because a contract claim requires an 'extra element' that renders the claim qualitatively different from a claim for copyright infringement: a promise by the defendant."[29] Other decisions in this court have either adopted the *AMC* approach, à la the Sixth Circuit, or the *Architectronics* approach, à la the Seventh Circuit (and the other circuits adopting it).

However, the Second Circuit seems to have recently formed a clear view on contract preemption, even if it was adopted without fully considering its significance and implications. For decades, surprisingly, the Second Circuit was able to avoid making that decision. The court's most in-depth analysis of the issue came in 2012 in *Forest Park Pictures v. Universal Television Network*. In that case, a group of television show developers sued a cable television network for breach of an implied promise to compensate the plaintiffs if the defendants would use the plaintiffs' ideas to produce a TV show.[30] The defendant, however, argued that the Copyright Act expressly preempted the breach of contract claim. Judge Walker, writing for the panel, spent more than 2,300 words analyzing the preemption claim.[31] It noted that other courts disagree on the scope of express preemption when it comes to breach of contract claims but acknowledged that most courts do not hold them preempted. The Second Circuit, however, avoided deciding the issue because the contractual promise at issue before it was merely a promise to pay for use, and payment is not one of the exclusive rights under copyright law. Indeed, such a contract does not limit the reproduction or distribution of the work and therefore should not be preempted. In fact, as the Second Circuit correctly noticed, even the Sixth Circuit, the only circuit court that at the time rejected *ProCD*, held that such contractual claims survive preemption.[32]

The dramatic change in the Second Circuit's approach came in 2019, in a seemingly routine opinion, in *Universal Instruments Corporation v.*

28. Am. Movie Classics Co. v. Turner Ent. Co., 922 F. Supp. 926, 931 (S.D.N.Y. 1996).

29. Architectronics, Inc. v. Control Sys., Inc., 935 F. Supp. 425, 438 (S.D.N.Y. 1996).

30. Forest Park Pictures v. Universal Television Network, Inc., 683 F.3d 424, 428 (2d Cir. 2012) (As noted, *supra* note 12, those are called *Desny* claims. They are rarely held preempted.).

31. *Id.* at 429–33.

32. Wrench LLC v. Taco Bell Corp., 256 F.3d 446, 459 (6th Cir. 2001).

Micro Systems Engineering.[33] This was a dispute between two sophisticated software companies. The defendant sold its software for the first phase of the plaintiff's automatization program under a contract that, among other things, arguably implicitly prohibited the defendant from modifying the software. When the defendant picked one of the plaintiff's competitors to complete the program's second phase, it needed to modify the software in alleged breach of the contract. The plaintiff sued for copyright infringement and breach of contract.

The Second Circuit, after dealing at length with the complex question of copyright infringement,[34] spent just 600 words addressing the preemption question.[35] It distinguished *Forest Park* by correctly noting that here the dispute was not about a promise to pay but about a promise to refrain from modification, which is an exclusive right under copyright law. From here, the opinion took a turn for the worse. The Second Circuit held that because the promise to refrain from modification was implicit and not explicit, it "necessarily seeks to vindicate its exclusive rights under 17 U.S.C. § 106."[36]

The Second Circuit's arguments in this part of its opinion are not easy to follow, partly because the opinion is so short. The Second Circuit stressed that the promise to refrain from modification was implicit, but in doing so, it seemed to have wrongly comingled two legal issues. Nobody can seriously question that contract law routinely enforces explicit and implicit promises. Implied-in-fact contracts are similar to all other contracts and play an important role in commercial life. When a plaintiff claims that an implicit promise was breached, it needs to prove the existence of that promise. It is typically done by showing that the parties intended to include such a promise within their contract but did not do so explicitly. This is a non-trivial burden for the plaintiff, but one that has nothing to do with copyright law principles but is driven by the parties' intent. It is possible that the Second Circuit simply did not believe that, in this case, the promise to refrain from modifying the contract was implied—which seems like a reasonable conclusion, but one that has nothing to do with preemption. If that promise was not implied, a factual question that the court did not rule on, then contract law itself would not have recognized it. However, the mere fact that a promise was implied is,

33. Universal Instruments Corp. v. Micro Sys. Eng'g, Inc., 924 F.3d 32 (2d Cir. 2019).

34. *See* Guy A. Rub, *Against Copyright Customization*, 107 IOWA L. REV. 677, 736–39 (2022) (analyzing the various issues within this opinion).

35. *Universal*, 924 F.3d at 48–49.

36. *Id.* at 49.

of course, no reason to hold it preempted. In fact, the promise to pay that the Second Circuit enforced in *Forest Park* was also implied.[37]

The Second Circuit, unfortunately, ignored, intentionally or not, the entire context of the question at hand and the controversy surrounding it, as discussed in *Forest Park*. While *Forest Park* noted the disagreements among other courts, including other circuit courts, the leading approaches that those courts developed, and the difficulty of the question, in the *Universal Instrument* opinion, none exists. The opinion doesn't cite any of the sister circuits, not even the Sixth Circuit, which rejected *ProCD*. Indeed, it is unclear if the court even knew that this was the first time that the Second Circuit held a contract preempted and didn't think it was meaningful or even worth mentioning or whether the court was oblivious to the significance of its decision.

The weaknesses of the Second Circuit's opinion in *Universal Instruments* do not end here. The opinion also makes little sense from a policy or equity perspective. As noted, if the court rejected the preempted argument, the plaintiff would have still needed to prove that the parties intended to prohibit the modification of the software in question. In other words, accepting the preemption argument meant that even if the parties did intend to prohibit modification, that intent was frustrated as unenforceable. But, as further explored in Section III.A below, such a prohibition makes no sense and promotes no copyright-related policy, at least when it comes to sophisticated parties who operate in a competitive environment.

The succinct Second Circuit opinion thus applied section 301(a) in a mechanical, formalistic, and doctrinally questionable way while ignoring the lively debate on that issue—a debate that the same court addressed just a few years earlier in a much more detailed way.

If one had hoped that this short discussion on preemption at the end of an opinion that focuses on other complex matters might be ignored in the future, the Second Circuit 2022 decision in *ML Genius v. Google* put those hopes to rest.[38] In *Genius*, the plaintiff published the lyrics of popular songs (with permission from the relevant copyright holders). Google (also, with the copyright owner's permission) allegedly copied the content of Genius's website, so when users search for the lyrics, they would be presented on Google, and the user will not leave the website to

37. Forest Park Pictures v. Universal Television Network, Inc., 683 F.3d 424, 432 (2d Cir. 2012) ("As long as the elements of a contract are properly pleaded, there is no difference for preemption purposes between an express contract and an implied-in-fact contract.").

38. ML Genius Holdings LLC v. Google LLC, No. 20-3113, 2022 WL 710744 (2d Cir. Mar. 10, 2022).

Genius's website. Genius's form agreement, however, requires users of its website to promise not to do just that. Genius thus sued Google for a breach of contract.

Google claimed that Genius's breach of contract claim was expressly preempted. In response, Genius argued that contract claims cannot be preempted because they are based on the parties' consent and thus bilateral. In another short opinion, the Second Circuit rejected Genius's claim. Sadly, like in *Universal Instruments*, the reader of the Second Circuit's decision in *Genius* might not appreciate how controversial it is. For example, the opinion is misleading by quoting a Southern District of New York opinion that held that contract could be preempted without mentioning that many other decisions of the same court held that they cannot.[39] The controversy among the circuit courts is not mentioned, and no opinion that held contracts immune from preempted—and as noted in Part I, that is the dominant opinion among circuit courts—is even mentioned. The opinion also misrepresents the Second Circuit's own caselaw. The court notes that in *Forest Park,* the Second Circuit quoted NIMMER ON COPYRIGHT for the proposition that contracts can be preempted.[40] However, the reader of *Forest Park* will quickly note that while the court mentioned Nimmer's position, it explicitly refused to adopt it and even noted that it is controversial and rejected by other circuit courts. Another precedent that the Second Circuit distorts in *Genius* is its 2020 decision in *In Re Jackson* (a decision that will be discussed at length in Part III). In Genius, the court suggests that Genius's argument that contracts are immune from preemption is inconsistent with *In Re Jackson*'s holding which calls for a holistic approach.[41] However, while it is true that *In Re Jackson*, a case that did not address a breach of contract claim, did suggest that the inquiry should not be mechanic, it also noted that some state causes of action were held to never be preempted by copyright.[42]

Indeed, while the Second Circuit decision mentions the need for a "holistic" approach, its analysis did not engage in one. Instead, it suggested that because the plaintiff's contract prohibited reproduction and because reproduction is an exclusive right, then the contract was preempted. That is not a holistic approach but rather a formalistic and mechanical one, completely detached from the policies that Congress was

39. *Id.* at *4 (citing Canal+ Image UK Ltd. v. Lutvak, 773 F. Supp. 2d 419, 444 (S.D.N.Y. 2011)).

40. *Id.* at *4.

41. *Id.* at *4.

42. *In re* Jackson, 972 F.3d 25, 44–45 (2d Cir. 2020).

trying to promote or the existing debate on that issue. Like in *Universal Instruments*, the Second Circuit reached its result without engaging in the policy debate and without even acknowledging the conflicting views of most circuit courts in the country.

Genius has filed a Petition for a Writ of Certiorari concerning the Second Circuit's decision.[43] At the time of writing, that petition is still pending before the Supreme Court, which recently invited the U.S. Solicitor General to file a brief on this matter.[44]

IV. FROM EXPRESS PREEMPTION TO CONFLICT PREEMPTION

Holding a contract preempted used to be quite rare. In fact, in more than 40 years since the passage of the Copyright Act of 1976 (which enacted section 301(a), the express preemption provision) and until the Second Circuit opinion in *Universal Instruments* in 2019, only one contract was held preempted by a circuit court.[45] Since 2019, the Second Circuit has done it twice. This Part explains that this sudden rush to scrutinize private arrangements between sophisticated parties—and it remains to be seen whether or not this is the start of a larger trend in the caselaw[46]—is questionable from both doctrinal and policy perspectives. Moreover, this Part continues, the Second Circuit also missed an opportunity to apply a more appropriate and nuanced tool to assess state laws: conflict preemption.

A. The Problematic Formalism in the Second Circuit Approach

In two recent decisions, the Second Circuit held that contracts that prohibit actions that are exclusive rights under copyright law—meaning, copying, adaptation, public performance, and public display—are preempted by copyright. The core problem is that this test, while popular among the minority of courts that rejected the *ProCD* approach, is completely detached from federal law policy. It allows parties to an otherwise binding contract to breach it and avoid liability without even identifying any harm to public policy in general or to federal law's goals

43. Petition for Writ of Certiorari, ML Genius Holdings LLC v. Google LLC, 143 S. Ct. 522 (2022) (No. 20-3113).

44. ML Genius Holdings LLC v. Google LLC, 143 S. Ct. 522 (2022).

45. Ritchie v. Williams, 395 F.3d 283, 286–91 (6th Cir. 2005).

46. This partly depends on whether the Supreme Court will decide to hear this case. If not, it remains to be seen whether contract law plaintiff might try to avoid the Second Circuit and sue in friendlier jurisdictions, which might be nontrivial as the Second Circuit has jurisdiction on any breach of contract claim filed in the state on New York.

in particular. As such, this mechanical, formalistic test, unsurprisingly, does not promote federal policy.

The focus of the Second Circuit's test on just the actions that the contract prohibits makes it both underinclusive and overinclusive. The test is underinclusive because contracts can, at least arguably, undermine copyright policy without prohibiting any act that is an exclusive right. Consider, for example, a contract that prohibits the readers of a book from criticizing it. Such a contract arguably undermines core fair use values without limiting any act that is an exclusive right. Under the Second Circuit's approach, such a contract will not be preempted.

Even worse, the test is greatly overinclusive because contractual limitations on copying and distributing information goods are very common, and refusing to enforce them will seriously disturb multiple industries. The Second Circuit, unfortunately, did not list any reason as to why any contract that limits copying and distribution will face a different fate than the contracts considered and found preempted in *Universal Instruments* and *Genius*.

Consider, for example, databases. After the Supreme Court held in *Feist v. Rural* that a laborious but non-creative collection of factual information is not protected by copyright, some were concerned that the country would face a serious problem producing factual databases.[47] For similar reasons, the E.U. started to provide sui generis rights for databases, and parallel bills were introduced (but never enacted) in Congress.[48] But those concerns proved to be exaggerated. Over time, we learned that copyright does not need to protect the production of factual information, partly because other laws, including contract law, can provide adequate incentives for such production.[49] But if those other means of protection, including contracts, are preempted, as at their core they limit copying, the harm to the production of factual information might be significant. In other words, current federal law and state laws complete each other. The costs of protecting facts with a strong property right, like copyright, are likely too high, as it will shrink the public domain and potentially

47. *See, e.g.*, Jane C. Ginsburg, *No "Sweat"? Copyright and Other Protection of Works of Information After* Feist v. Rural Telephone, 92 COLUM. L. REV. 338, 349 (1992) ("Justice O'Connor's opinion [in *Feist*] appears to enshrine a policy of free-riding in the Constitution. Use of the fruit of the compiler's labor without compensation, her opinion declares, is the essence of copyright."); Alfred C. Yen, *The Legacy of Feist: Consequences of the Weak Connection Between Copyright and the Economics of Public Goods*, 52 OHIO ST. L.J. 1343, 1374–75 (1991) (questioning effectiveness of *Feist* decision in achieving its constitutional goals).

48. *Directive 96/9/EC of the European Parliament and of the Council*, 77 OFF. J. OF THE EUROPEAN CMTYS 20, 25 (1996).

49. KAL RAUSTIALA & CHRISTOPHER SPRIGMAN, THE KNOCKOFF ECONOMY 163–65 (2012).

undermine our freedom of speech. But the costs of protection by weaker means, like contracts, are more likely justified as such a protection provides the creator of those databases with enough incentives to produce them. But the Second Circuit's approach, instead of seeing those laws as working together, places them on a collision course. Unfortunately, if copyright law both does not protect those databases and prevents other laws from doing so in a different way, as the Second Circuit suggests, then they might not be produced, at least not at the same rate.

Contractual limits on free copying and distribution of information goods are also common in many other contexts. Consider, for example, non-disclosure agreements. Such agreements are a cornerstone in much of our trade secret law. The Supreme Court held that this law does not conflict with patent law because it provides different and weaker protection,[50] and the same logic applies to copyright law. Non-disclosure agreements can play an important role in other contexts. Companies might desire to disclose sensitive information to one another to foster relationships and promote various transactions, from exclusivity agreements to mergers; a creator might need to pitch a valuable idea to a movie producer; an inventor might want to tell an investor about its initial discoveries; and two individuals might agree to settle disputes outside of court to prevent sensitive information from being available to the public. In all those contexts, and there are many more like them, parties have a legitimate interest in keeping sensitive information secret, and they do it by contractually limiting its reproduction and distribution. Why would copyright law desire to undermine such arrangements?[51]

The problem with the Second Circuit's approach is not so much that it got the copyright policy considerations wrong, but that its test does not engage with such policy. Take, for example, the decision in *Genius*, where the court held a contract that prevented Google from copying and publicly displaying the content of Genius's website preempted. One can argue that this contract actually promotes copyright policy. This case demonstrates how Google, an 800-pound gorilla, uses its power to divert traffic away from websites by copying massive amounts of their content to its own servers. In the long run, factual websites will find it difficult to survive

50. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 489–90 (1974).

51. This is not to say that all non-disclosure agreements should automatically be considered enforceable. Some of those contracts, for example, might be unenforceable due to public policy concerns as conflicting with the freedom of the press. *See, e.g.*, David A. Hoffman & Erik Lampmann, *Hushing Contracts*, 97 WASH. U.L. REV. 165 (2019) (discussing the tension between non-disclosure agreements and public policy). However, not only are those concerns relatively rare, but they also have little to do with copyright policy.

such an onslaught, a concern that was raised in recent years in congressional hearings and reports as well.[52] Genius's situation, in that respect, is not unusual. Hundreds of websites are in the business of providing information not protected by copyright to their users—websites dealing with the weather, sporting results, statistics, polling data, ranking data, and so much more. Allowing Google to use its monopolistic power to control this information creates a host of issues both from the long-term incentives and longevity of those services and even concerns from the First Amendment and information competition perspective. On the other hand, one may question whether Genius's actions, as a licensee of the information that Google copied, interfere with the exploitation of those copyright owners' rights. The Second Circuit's formalistic test allowed Google to win and avoid liability for breaching the relevant contract without mentioning, let among analyzing, any of those considerations. The Second Circuit did not even bring them up.

Another impact of the Second Circuit's formalism is that it groups together plaintiffs that might try to promote different causes. Genius's contract is not unusual in prohibiting data scraping. Many websites, from big to small, include such provisions in their users' agreements. Their reason, however, to fight scraping might vary. Genius prohibits scraping so that other websites, and in particular Google, would not copy the content of its website and unfairly compete with it. A few airlines, American Airlines and Southwest, for example, sued websites that foster more aggressive competition by aggregating prices from websites they scrap.[53] Other companies, like Facebook and LinkedIn, fight the scraping of their users' profiles because it allegedly undermines their users' privacy.[54] While the policies and considerations in each of those groups are different, the Second Circuit, which only asks whether those anti-scraping contracts limit copyright and distribution—and they all do—treats them all the same. Indeed, even if one is troubled by Genius's attempt to prevent competition, possibly an unfair one, by prohibiting

52. *See* STAFF OF H. COMM. ON THE JUDICIARY, 117TH CONG., INVESTIGATION OF COMPETITION IN DIGITAL MARKETS: MAJORITY STAFF REPORT & RECOMMENDATIONS 153 (Comm. Print 2022) (warning of "instances in which Google has intercepted traffic from third-party websites by forcibly scraping their content and placing it directly on Google's own site.").

53. *See, e.g.*, Amended Complaint, Am. Airlines, Inc. v. Red Ventures LLC, No. 4:22-cv-0044-P, 2022 WL 6713481 (N.D. Tex. Sept. 2, 2022); Sw. Airlines Co. v. Kiwi.com, Inc., No. 3:21-CV-00098-E, 2021 WL 4476799, at *4 (N.D. Tex. Sept. 30, 2021), *appeal dismissed*, No. 21-11095, 2022 WL 1259114 (5th Cir. Jan. 3, 2022).

54. *See, e.g.*, Meta Platforms, Inc. v. BrandTotal Ltd., No. 20-CV-07182-JCS, 2022 WL 1990225, at *22–23 (N.D. Cal. June 6, 2022); Complaint & Demand for Jury Trial, Meta Platforms, Inc., v. Bright Data LTD, No. 3:23-cv-00077-AGT (N.D. Cal. Jan. 6, 2023); hiQ Labs, Inc. v. LinkedIn Corp., No. 17-cv-03301-EMC, 2022 WL 18399982, at *10–14 (N.D. Cal. Nov. 4, 2022).

mass copying, which might look close to copyright, there is no reason under copyright law to stop Facebook from protecting its users' privacy through its contracts.

Finally, the Second Circuit's test also ignores the relationship between the parties, their sophistication, and the nature of their contractual relationship. Nothing in the Second Circuit's test distinguishes fully negotiated agreements between sophisticated parties and standard-form agreements between large companies and individuals.[55] Consider, for example, the agreement in question in *Universal Instruments*. In that case, the Second Circuit held that even if the defendant implicitly promised not to modify the plaintiff's software, that contract was preempted. But because the two parties were similarly situated sophisticated software companies, this prohibition made no sense and promoted no copyright-related policy. We do not know why the parties chose to prohibit modification, but sophisticated parties price contracts according to their terms in an attempt to enlarge their contractual pie. Therefore, the prohibition on modification, which gave the plaintiff an advantage in competing for the second phase in the defendant's project, was part of the price of the parties' agreement. Indeed, it is quite likely that the plaintiff priced the project's first phase knowing it would likely win the second one. Intervening in those relationships ex post is unfair and, going forward, will discourage parties from entering similar non-harmful arrangements that presumably maximize their profits and total social welfare.

B. Scrutinizing Breach of Contract Claims under the Conflict Preemption Doctrine

Express preemption is not the only mechanism to address the tension between federal and state law. The express preemption provision of the Copyright Act, in particular, seems to address only a small subset of this potential conflict. One of the main motivations in enacting section 301(a) was to bring under federal law multiple copyright-like state laws, particularly concerning unpublished works.[56] Therefore, its focus on

55. Many commentators who harshly criticized *ProCD* have noted that preempting contracts is especially crucial when it comes to standard-form agreements with consumers and users. *See, e.g.*, Lemley, *supra* note 19, 125–26; Viva R. Moffat, *Super-Copyright: Contracts, Preemption, and the Structure of Copyright Policymaking*, 41 U.C. DAVIS L. REV. 45, 47–48 (2007). Judge Dyk made a similar argument in his famous dissent in Bowers. Bowers v. Baystate Techs., Inc., 320 F.3d 1317, 1337 (Fed. Cir. 2003) (Dyk, J., dissenting).

56. Guy A. Rub, *A Less-Formalistic Copyright Preemption*, 24 J. INTELL. PROP. L. 327, 333–34 (2017).

preempting "equivalent" laws is understandable. But state laws can undermine federal policy goals without being equivalent to copyright.[57] Indeed, the focus in the caselaw as to whether contracts are equivalent to copyright is, not surprisingly, quite pointless. The real question should be whether and when contracts might undermine federal copyright policy.

The new express preemption cases from the Second Circuit are especially unfortunate because, in another recent decision, the Second Circuit had finally tackled at great depth state laws that conflict with federal copyright policy under the conflict preemption doctrine. Indeed, Judge Leval's 2020 decision in *In Re Jackson* might be the most in-depth analysis of conflict preemption and copyright law in all federal caselaw, at least since *Goldstein v. California*, the last Supreme Court decision concerning copyright preemption.[58]

Congress's preemption power comes from the Supremacy Clause of the Constitution: "the Laws of the United States . . . shall be the supreme law of the land."[59] That clause means that "state laws that conflict with federal law are 'without effect.'"[60] The Supreme Court held that Congress has the power to preempt state law and that this preemption power "may be either expressed or implied."[61] Implied preemption can be found in two cases: First, "[w]hen Congress intends federal law to 'occupy the field'"[62] and second, "to the extent of any conflict with a federal statute."[63] The first is typically called field preemption, and the latter, the crucial type for our purposes, conflict preemption.[64] Conflict preemption can be found in two instances: "where 'compliance with both federal and state regulations is a physical impossibility,'"[65] and in "those instances where the challenged state law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.'"[66]

While that last type of preemption, conflict preemption (and more specifically, obstacle preemption), was the one discussed in *Goldstein v.*

57. *Id.* at 345–46.

58. Goldstein v. California, 412 U.S. 546 (1973).

59. U.S. CONST. art. VI, cl. 2.

60. Altria Grp., Inc. v. Good, 555 U.S. 70, 76 (2008) (citing Maryland v. Louisiana, 481 U.S. 725, 746 (1981)).

61. Gade v. Nat'l Solid Wastes Mgmt. Ass'n, 505 U.S. 88, 98 (1992) (citing Jones v. Roth Packing Co., 430 U.S. 519, 525 (1977)).

62. Crosby v. Nat'l Foreign Trade Council, 530 U.S. 363, 372 (2000) (citing California v. ARC Am. Corp., 490 U.S. 93, 100 (1989)).

63. *Id.* at 372 (citing Hines v. Davidowitz, 312 U.S. 52, 66–67 (1941)).

64. Oneok, Inc. v. Learjet, Inc., 135 S. Ct. 1591, 1595 (2015).

65. Arizona v. United States, 567 U.S. 387, 399 (2012) (citing Fla. Lime & Avocado Groves, Inc. v. Paul, 373 U.S. 132, 142–43 (1963)).

66. *Id.* (citing *Hines*, 312 U.S. at 67).

California, since the introduction of the express preemption mechanism in the Copyright Act of 1976, the vast majority of preemption decisions discuss only express preemption.[67] Judge Leval's opinion in *In Re Jackson* is, in that respect, unusual. But it also might signal a new era of greater reliance on this type of preemption.[68]

In his opinion, Judge Leval broke down the conflict preemption inquiry into two sub-questions.[69] First, he looks at the interests that the relevant state law, as applied to the case at bar, is trying to promote.[70] The closer they are to the interests within "the sphere of congressional concern in the copyright act," the more likely conflict preemption will be found.[71] Second, he looks at "the potential for conflict between the assertion of a state law claim . . . and the operation of the federal copyright system."[72] For example, does it "render fruitless" parts of federal law? The more significant the conflict with federal policy, the more likely the state law will be preempted.

In *In Re Jackson*, Judge Leval employed this approach to a state privacy law claim, but it can be applied to any state law claim, including a breach of contract. Even the first part of the inquiry—focusing on the interests that state law protects—helps address the implications of the formalism of the Second Circuit's approach in *Universal Instruments* and *Genius*. The main interest that contract law promotes is individualized autonomy and efficient allocation of resources in creating enforceable

67. *See Copyright Survives*, *supra* note 3, at 1198 (exploring the few decisions that addressed conflict preemption in the context of breach of contract claims).

68. This Section focuses on a framework for analyzing conflict preemption which is based on the Second Circuit decision in *In Re* Jackson. 972 F.3d 25 (2d Cir. 2020). I have addressed other aspects of the conflict preemption of contract elsewhere. *Id.* at 1196–99 (suggesting that conflict preemption might make more sense than express preemption when it comes to contractual promises, but also arguing that the vast majority of cases litigated to date should likely survive any kind of preemption); Rub, *supra* note 56, at 345–53 (arguing that conflict preemption has a role to play in preempting contracts that can stand as an obstacle to federal copyright policy).

69. This framework is based, to a degree, on the one proposed by Professor Rebecca Tushnet, which similarly placed significant weight within the preemption analysis on the purpose behind the use of the state law cause of action in a particular case. Rebecca Tushnet, *Raising Walls Against Overlapping Rights: Preemption and the Right of Publicity*, 92 NOTRE DAME L. REV. 1539, 1542–48 (2017). The Second Circuit also partly relied on Professor Jennifer Rothman's work, Jennifer E. Rothman, *Copyright Preemption and the Right of Publicity*, 36 U.C. DAVIS L. REV. 199, 206–09 (2002) (calling court to scrutinize right of publicity claim using conflict preemption and offering a framework to do so), and to a lesser degree on mine, Rub, *supra* note 56.

70. *In re* Jackson, 972 F.3d 25, 37 (2d Cir. 2020) (quoting Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 155 (1989)).

71. *Id.* at 37–38 ("[T]he more substantial the state law interest involved in the suit, the stronger the case to allow that right to exist side-by-side with the copyright interest, notwithstanding its capacity to interfere, even substantially, with the enjoyment of the copyright.")

72. *Id.* at 39.

bilateral arrangements,[73] which, of course, is very different from the goals that federal copyright law tries to promote, such as incentivizing creativity. However, one can argue that standard-form agreements are different because they can bind so many people. To the degree that those agreements are more of a tool to create a broad regulatory scheme, they might resemble property rights, particularly copyright.[74] Thus, unlike the Second Circuit's express preemption approach,[75] this scheme allows the law to treat negotiated contracts differently from standard-form agreements.

Of course, one can zoom in and instead of focusing on the goal of contract law in general, focus on the interests embodied in a specific contract. Such an approach can be especially valuable in separating standard-form agreements according to the scheme they are trying to create. Thus, Genius's standard-form agreement, which prevents copying to stop competitors for users' attention in providing content, should be relatively problematic, as somewhat similar to the goals of copyright law. On the other hand, Facebook's standard-form agreement, which prevents copying to maintain its users' privacy, should be unproblematic from a copyright law perspective. Thus, the conflict preemption approach, unlike the express preemption one, is more nuanced and achieves that desirable separation between form agreements.[76]

Once the interests behind the contract are explored, and to the degree that they are similar to copyright law's goals, the possibility of undermining federal policy should be considered. This is exactly the important question that the Second Circuit's current approach ignores.[77] In some cases, this inquiry should yield clear results. The contract that was found to be preempted in *Universal Instruments*, for example, not only fails the first part of the inquiry, as being a negotiated agreement between sophisticated parties maximizing their contractual pie, but it also likely fails the second. As noted, in *Universal Instruments*, the Second Circuit didn't even try to state how the fully negotiated contract in

73. *See, e.g.*, RESTATEMENT (SECOND) OF CONTRACTS § 1 (1981) ("A contract is a promise or a set of promises for the breach of which the law gives a remedy"); *see also* Nathan B. Oman, *The Failure of Economic Interpretations of the Law of Contract Damages*, 64 WASH. & LEE L. REV. 829, 831–32 (2007) (discussing the autonomy based and efficiency-based justifications for contract law). The limited tension between the autonomy-based justification for contract law and the efficiency based one is beyond the scope of this work.

74. *See* Smith, *supra* note 7 and accompanying text.

75. *Compare with supra* text accompanying note 55.

76. *Compare with supra* text accompanying notes 53–54.

77. *See supra* Section III.A.

question undermined federal policy.[78] Indeed, it probably did not. It is hard to see why federal policy is undermined when a company sells its product for a discount in return for limitation on modification, at least if both parties are sophisticated and do not hold a monopoly power within the given market.

While most contracts, even standard-form agreements, are likely to easily survive the preemption inquiry—after all, the law disfavors preemption and reserves it to clear conflicts with federal law[79]—some cases might be trickier. It was already noted that the agreement in question in *Genius v. Google* can be perceived as consistent with federal policy but might also interfere with the exploitation of copyright. If the Second Circuit had applied the conflict preemption framework, the parties would have needed to address those (and possible other) considerations. In particular, Google would have needed to show a clear conflict between Genius's contract and federal policy. Agreements, especially standard forms, that contract around fair use, including agreements that prohibit reverse engineering, might similarly fail such scrutiny under the conflict preemption framework.[80]

V. CONCLUSIONS

In the last few years, the Second Circuit brought back to life a legal claim that was presumed to be disappearing: allowing a defendant who breached a contract to escape liability by arguing that the contractual right is equivalent to copyright and thus expressly preempted by the Copyright Act. Indeed, while most circuit courts held contracts to be fundamentally different from copyright, in two recent opinions, the Second Circuit held, without much of an analysis and without engaging with the caselaw from other circuits, that contracts, nevertheless, can be preempted.

This Essay shows that the Second Circuit's approach is problematic. That approach suggests that every contract that limits the reproduction or distribution of information goods is equivalent to copyright. But such a formalistic test is unreasonable, especially as being incredibly imprecise and detached from copyright policy. It is both underinclusive and

78. *See supra* text accompanying note 55.

79. *See, e.g.*, Medtronic v. Lohr, 518 U.S. 470, 485 (1996) ("[B]ecause the States are independent sovereigns in our federal system, we have long presumed that Congress does not cavalierly pre-empt state-law causes of action. In all pre-emption cases . . . [we] start with the assumption that the historic police powers of the States were not superseded by the Federal Act unless that was the clear and manifest purpose of Congress.")

80. *See* Rub, *supra* note 56, at 346.

overinclusive, and it casts a shadow over a host of common contracts in multiple industries that regulate copying and distribution.

To the degree that contracts threaten federal policy, they should be scrutinized under the conflict preemption doctrine. The Second Circuit's own recently established framework to apply the conflict preemption doctrine in the context of copyright law seems especially appropriate for that task, and it can allow courts to engage in sophisticated and more accurate policy analysis of suspected contracts.