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CUSTOMARY INTELLECTUAL PROPERTY

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INTRODUCTION

The treatment of customary practices and social norms has been widely debated in many areas of the law over the last fifteen to twenty years. In contract law, for example, there is a developed literature analyzing whether industry practices should be read into contracts as implied terms and also whether such practices should inform the interpretation of existing contractual terms. Similarly, in tort law, there is an on-going discussion about whether the development of customary safety precautions should be an absolute defense to tort liability, no defense at all, or simply some evidence of negligence or lack thereof. In the area of property, custom has been used to grant the public a right to use ostensibly private property on the basis of long-standing customary uses by the public of that land. Despite all this talk of custom in other areas of law, there has been no

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This draft represents my preliminary thoughts on the use of custom in intellectual property. I anticipate having a complete draft ready for circulation in the Fall of 2006. Please let me know if you would like me to provide you with the draft once it becomes available.

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serious theoretical discussion of how custom is and should be treated in the context of intellectual property.¹

This vacuum is not just a matter of scholarly curiosity, but as it turns out a crucial unturned stone in the on-going expansion of IP rights. Courts have routinely relied on customary practices, often implicitly, as a basis for protecting IP rights without considering whether custom should be incorporated into the law and, if so, to what extent. Because courts have not articulated that they are using customary law, the incorporation of custom has been inconsistent, illogical and troubling. Courts, for example, often *accept* customary practices as a basis to *expand* IP rights, while *rejecting* the application of custom to *restrict* IP rights. The most common example of courts relying on custom to extend the scope of IP rights is in the context of evidence of industry licensing practices. In cases involving film clips, for example, courts routinely conclude that because most studios, distributors and producers license such clips, there is no available defense

¹ Custom has been used to mean many different things, from regularly occurring industry practices, to social norms, to Blackstone's framework for granting customary rights on the basis of on-going practices that have existing from "time immemorial." For my purposes, I look at custom in its broadest sense and consider all three of these major categories of custom. Eric Posner has made a useful distinction between self-imposed norms and legally enforced customs. He defines norms as "rules that govern collective behavior and that are enforced nonlegally." Eric A. Posner, *Law, Economics & Inefficient Norms*, 144 U. PA L. REV. 1697, 1713 (1996). I will address both self-imposed and legally enforced customs here. I will identify whether the custom is judicially or statutorily enforced, or whether it is simply an industry or social practice currently without extrinsic enforcement. I do not belabor this difference in terminology because there is fluidity between these categories. What starts out as a social norm may become a sanctioned industry practice and eventually either codified by statutes or incorporated into the common law.

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to copyright infringement when no license has been purchased. This automatic rejection of any possible fair use or other defense solely on the basis of custom is becoming increasingly common. Courts also frequently rely on in-house IP guidelines to bind content producers without conducting an independent fair use analysis.

Additionally, recent efforts by those who wish to expand the public's access to copyrighted and trademarked works by developing "best practices" and fair use guidelines have implicitly adopted a model of IP law that incorporates custom as law without considering what that means.² Without considering the impact of such guidelines on courts or the theoretical basis for considering such customs, these "best practices" projects risk limiting rather than expanding public access to intellectual property. Similarly, the value of the recent development of alternative IP regimes, such as the Creative Commons project and the open source software movement, cannot be fully understood without evaluating how courts will treat such customary practices in which community norms play a large role in determining the boundaries of the applicable IP rights.

In this project, I develop a theory for the use of custom in IP and set forth some initial data on the impact of its use. In the current draft, I primarily, though not exclusively, focus on issues in copyright law, although I anticipate that the

² See, e.g., *The Documentary Filmmakers' Statement of Best Practices in Fair Use* (2005); *Best Practices for Use of Film Stills*, CINEMA JOURNAL.

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final version will include a discussion of trademark law, patent law, and quasi-IP rights (such as the right of publicity and unfair competition).

In Part I of the Article, I discuss the substantial impact that custom has on IP rights. In Subsection A of Part I, I analyze how IP producers and users have created a system of de facto IP rights through customary practices and social norms that have greater influence in many instances on IP transactions than the legal regime that governs IP. In particular, I will address licensing practices and what some have dubbed the “clearance culture,” in which every use of another’s work is licensed even when there is no legal basis for such a requirement.³ I will discuss in-house IP policies that govern movie and television studios, university IP policies and other industry-developed IP guidelines that differ in substantial ways from the requirements of the de jure IP regime.

In Subsection B, I will address how both Congress and the courts have incorporated these customary practices into IP law. Courts have routinely relied on licensing practices as evidence that the licensing of material is required without full consideration of the fair use defense. Courts have enforced industry guidelines and agreements regarding the usage of IP. Legislative bodies have also incorporated custom into the law. Congress has adopted industry-developed

³ See, e.g., Patricia Aufderheide and Peter Jaszi, *Untold Stories: Creative Consequences of the Rights Clearance Culture for Documentary Filmmakers* (2004), available at <http://www.centerforsocialmedia.org/rock/index.htm>.

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standards or guidelines into governing IP acts, legislative history and associated regulations. The focus of this section is not only to identify the ways in which courts and the legislature are incorporating custom, but also to emphasize that they are doing so in an unreflected and unconsidered way. Regardless of whether the incorporated customs are ultimately ideal, there can be little dispute that courts and Congress need to more carefully consider the impact of customary law, how it is shaped and what its parameters should be.

In Subsection C of Part I, I analyze situations in which IP customs are likely to develop and when such customs are likely to be adopted into law. The primary circumstance in which custom is likely to develop is when there is great uncertainty about the law. This has been the case with regard to copyright's fair use doctrine and explains why much of the customary law in the area seeks to establish standards for when the use of another person's work should be allowable. A related situation which is likely to produce customary law is the development of new technology. Such new technologies often create legal vacuums in which the applicability of current laws may be uncertain. This certainly was the case with the advent of photocopying technology in the 1940s and 50s, and, more recently, with the development of the Internet and peer-to-peer file-sharing. As with other areas of the law, custom is likely to develop when the same companies or individuals do the same types of transactions over and over

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again with one another. These ongoing relationships and repeated transactions are likely to result in the development of customary practices between particular parties and within subsections of IP markets.

In Part II of the article, I critique the current use of custom in IP law. As a preliminary matter, courts haphazardly apply custom in ways that unreasonably limit the rights of the public to access works without any corollary application of custom to provide access to such works. This incoherent approach may in large part be a result of the failure of courts to articulate that they are in fact incorporating customary law. Once analyzed through the lens of customary law, it is easier to assess when it does and does not make sense to incorporate industry practices and norms into the law.

Criticisms leveled at the incorporation of custom into contract law apply with equal measure to IP licensing practices. Much of the work by private commercial law scholar Lisa Bernstein has focused on the questionable basis for applying custom to contract law. Her major criticism of incorporation in the contract law setting is that courts apply custom in a context in which it was never meant to apply. Merchants often develop regular practices that are intended to apply to preserve relationships, but parties do not intend these same norms to apply when a relationship or agreement goes bad. Thus, courts improperly apply

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relationship-preserving norms to end-game disputes.⁴ The same is true in the IP licensing context, where risk-averse corporate counsel insist on licensing to avoid future disputes, but do not intend those licensing practices to reflect the allocation or scope of IP rights.

Other significant problems with the application of custom by courts and Congress in the IP context include: (1) the application of customary practices to unrelated third-parties who either were unaware of the practice or had no opportunity to oppose the practice; (2) the lack of consideration of whether such customs are reasonable; (3) market inequities that result in the most powerful IP holders setting the customary standards and norms which therefore are distinctly biased; and (4) these same market inequalities also make it likely that the customs that develop will not optimally allocate IP resources.

Part III of the article develops a preliminary approach to how custom should be used in the IP context by courts, Congress and players in the IP industries. I contend that custom should have a limited role in determining de jure IP rights. This is primarily true because most practices are meant to preserve industry relationships and avoid litigation, not to establish or define IP rights when court intervention is required. Nevertheless, there is a role for custom to play in some judicial inquiries. Clarence Morris, one of the first scholars to

⁴ Lisa Bernstein, *The Questionable Empirical Basis of Article 2's Incorporation Strategy: A Preliminary Study*, 66 U. Chi. L. Rev. 710 (1999).

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address the application of custom to tort law, concluded that custom should not be a basis for legal doctrine, but that it could be useful evidence in particular tort cases.⁵ He contended that allowing custom to dictate law would result in the adoption of suboptimal safety precautions. Customary practices, however, may shed light on available safety measures and on the reasonable standard of care. Similarly, in the IP context, customary practices may provide important evidence relevant to specific legal inquiries. For example, the increasing trend of product placement in television shows and films may lead consumers to conclude that any trademarked products that appear in such shows are placed there with the approval and sponsorship of the trademark holders. This customary practice therefore makes it more likely that consumers will be confused if trademarked products appear but were not “placed” with the approval or sponsorship of the trademark holder.⁶

Evidence of custom also may be useful in interpreting industry agreements with industry-specific terminology or other understandings between parties. Such uses of custom comport with the least controversial application of custom to contract law. Custom should not, however, generally be applied in the IP context

⁵ Clarence Morris, *Custom and Negligence*, 42 COLUM. L. REV. 1147, 1147-48 (1942).

⁶ This potential consumer confusion does not mean that there should be liability for trademark infringement in such an instance, but it is the crucial inquiry in proving the prima facie case in any trademark infringement action.

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against defendants or plaintiffs who have no relationship with one another or who did not have an opportunity to dissent from the industry practices or standards.

To the extent custom is applied affirmatively to establish infringements of IP rights, custom must also be considered defensively as a potential justification for infringements. The application of custom in the real property context, to provide the public rights to access and use property based on long-standing usage, may have significant implications in the IP context. Property scholar Carol Rose has pointed to custom as a useful mechanism for identifying and protecting “inherently public property.”⁷ In intellectual property, custom could be a basis to protect public uses of works that once fell into the public domain but have since had their copyright resurrected. Moreover, uses which have long been considered fair could be considered public usages under customary law principles. News reporting, criticism and copying for personal use, for example, all have long histories of being permitted uses – uses that have always been considered “reasonable and *customary*.”⁸

As a practical matter, participants in the IP economy must also begin to consider what impact their practices, norms and developed IP guidelines have on shaping both de facto and de jure IP rights. Opposition to the pervasive clearance

⁷ Carol Rose, *The Comedy of the Commons: Custom, Commerce, and Inherently Public Property*, 53 U. Chi. L. Rev. 711 (1986).

⁸ *Shapiro, Bernstein & Co., Inc. v. P.F. Collier & Son Co.*, 26 U.S.P.Q. 40 (S.D.N.Y. 1934) (emphasis added); see also *Williams & Wilkins Co. v. US*, 487 F.2d 1345, 1380 (Ct. Claims 1973).

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culture may be required to demonstrate that there is not uniform consent to such an expansive view of IP rights. Additionally, developers of “best practices” and other fair use guidelines who seek to create safe harbors for IP users must be very careful not to establish customary limits on copyright law. As I will discuss, the development of customary fair use guidelines for classroom copying has contracted, rather than expanded, the scope of fair use in the educational context.

My goal with this project is two-fold: first, to identify the ways in which customary law is shaping IP; and second, to develop a coherent vision for how custom should be applied in the context of IP. The development of a sound theoretical basis for the use of custom to define IP rights will play an important role in shaping the future of IP. The unarticulated incorporation of custom threatens to swallow up IP law, and replace it with industry-led IP regimes that give the public and other creators more limited rights to access and use IP than envisioned by the current legal regime. Moreover, the value of many projects to reclaim public access to IP works may turn on how custom is treated by the courts and as a matter of practice within the IP industries.