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A Hand In The Cookie Jar For Ad Agencies: Copyright Claims Against Chiat Day

In February 2004 celebrity rap singer Eminem filed a federal copyright infringement action filed in US Federal District Court (6th District) against Apple, Viacom and their advertising agency TBWA/Chiat Day. This past month, the case has sustained the first round of defenses and should proceed to trial unless first settled by the parties. Eminem alleges that Apple's MTV and web broadcast advertisement depicting a ten year old singing the Oscar-winning theme song to the film "8 Mile" to promote iPod and iTunes infringes upon his copyrights.

Quite surprising in this case are allegations that Apple broadcast the ad on its web site despite the fact that Steve Jobs failed to get Eminem's music publisher to grant permission for its use. The million dollar question, however, is why would the reputable agency produce the ad knowing the client had not obtained the rights? One may speculate that Chiat Day either did not know or thought the client had procured them. Although the facts have yet to come out in the case, it would be interesting to see where the fingers get pointed and whether or not the perceived responsibility will rest on the agency.

More importantly, however, this case raises a larger question…to what extent are agencies ultimately responsible for the content they produce? While most agencies are aware they owe some duty to the public to ensure that their work product is not misleading, deceptive or violate a third party's intellectual or privacy rights, in the case when the client may have let certain elements fall through the cracks, liability is seemingly a game of Russian roulette. Courts, federal agencies and the advertising industry itself have consistently maintained that self-regulation is the optimum course. Litigation pertaining to the Lanham Act, FTC enforcement actions, federal laws and state legislation restricting commercial speech all seem to sweep agencies into lawsuits even if the conduct is chiefly driven by the client.

Keep in mind that there is an inherent conflict of interest between the agency and the advertiser with respect to violations or infringement, and both parties will likely point the finger at the other in the event of liability. Without a clear campaign review and clearance process on both sides of the agency-client relationship, each party may erroneously assume that the other party is "handling it." Reliance on the other party's counsel will not necessarily keep one from getting sued, and would not be an excuse to avoid liability.

Further, clients could face large judgments such as last year's $30 MM verdict in the Taco Bell case. Remedies have also included court orders or settlements whereby advertisers are forced to launch corrective adverting campaigns. Plaintiffs are free to go after advertiser and agency jointly and severally, requiring the defendants to sue each other to determine the extent of their respective contributions. Although advertising insurance is widely used in the industry and highly recommended, it should not be considered the contingency plan. That is like saying possessing auto insurance gives one license to drive recklessly.

While most clients listen to their agencies when legal issues arise, this may not always be true in marginal cases. As competitive market forces and client budgets can tempt ad execs to get married to creative concepts, second-guessing a client's wishes may not always be the easiest course to maneuver, particularly for smaller agencies. Nonetheless, having an independent review and clearance process could actually add value to the customer in light of today's litigious landscape, while mitigating agency liability. Moreover, independent clearance and review could constitute a good faith defense for the agency against a willful infringement action, which would award the plaintiff statutory damages and attorney's fees.

Many small to mid-size agencies avoid legal clearance due to cost factors or simply lack of knowledge. Prudence, however, would probably require a reassessment of this practice. Agencies can pass on the added to cost to their clients, build it into the budget, or arrange pre-arranged fixed pricing with their legal counsel so as to mitigate ascertainable legal costs. Also, all agencies should refuse receiving "spec" materials and allocate appropriate responsibilities and indemnification protection in their engagement agreements. Without these safeguards, the agency may face costly implications.

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