

REPORT OF
THE COMMITTEE ON COPYRIGHT AND LITERARY PROPERTY OF
THE ASSOCIATION OF THE BAR OF THE CITY OF NEW YORK
ON A PROPOSAL OF
the
NATIONAL CONFERENCE OF COMMISSIONERS
ON UNIFORM STATE LAWS
TO ADOPT A PROPOSED UNIFORM COMPUTER INFORMATION
TRANSACTIONS ACT

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CO-SPONSORED BY THE COMMUNICATIONS AND MEDIA LAW
COMMITTEE AND THE ENTERTAINMENT LAW COMMITTEE

I. INTRODUCTION

The Committee on Copyright and Literary Property of the Association of the Bar of the City of New York (the "Committee") reports on the Draft for Approval of the Uniform Computer Information Transactions Act ("UCITA") prepared by the National Conference of Commissioners of Uniform State Laws ("NCCUSL").

A. Short History of the Project

UCITA evolved from a project begun several years ago by NCCUSL to develop "uniform law treatment of software contracts."¹ Working under the aegis of the committee on Article 2 of the Uniform Commercial Code ("UCC") dealing with sales, NCCUSL initially considered a "hub and spoke" configuration to Article 2 "under which licensing and sales would be treated as separate chapters of a revised Article 2."² Later, "responding to the obvious convergence in information industries and the increasing relevance of digital technology,"³ the project expanded to cover "online and other forms of information licensing" within a separate Article 2B of the UCC "dealing with licensing and other transactions involving information."⁴ Its drafters, including representatives from both NCCUSL and the American Law Institute ("ALI"), stated that Article 2B "provides a framework for contractual relationships at the center of the information era."⁵

Article 2B evoked a great amount of comment from industry groups, academics, consumer groups, and others, and went through many lengthy drafts which made changes in scope and added exclusions of parts of certain industries. On April 7, 1999, NCCUSL and ALI announced in a press release that the project would not be continued as Article 2B of the UCC, but that NCCUSL would instead promulgate a freestanding uniform state law entitled UCITA. A draft of UCITA, issued on about June 1, 1999 and labeled "Draft

¹ Preface to Article 2B, Part 1, Deliberative Process. References to sections of Article 2B (the August 1, 1998 draft) will be indicated by "2B-___." References to sections of UCITA will be indicated by "UCITA___." All references to "Section ___" refer to sections of the Copyright Act.

² Id.

³ Id.

⁴ Id.

⁵ Preface to Article 2B, Introduction.

for Approval," is scheduled to be promulgated at the annual meeting of NCCUSL on July 23-30, 1999. According to the April 7, 1999 press release, NCCUSL's plan is to immediately introduce and enact UCITA in the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands beginning in the Fall of 1999.

The Reporter states that UCITA is a "contract law statute" applicable to "computer information transactions" including "commercial agreements to create, modify, transfer, or distribute: computer software[,] multimedia interactive products [,] computer data and databases [and] Internet and online information."⁶ The Reporter states that UCITA applies "to many of the most significant transactions in the information age that are for the most part intangibles."⁷ UCITA contains sections on scope, formation and terms, warranties, transfer of interest and rights, breach of contract, financing, repudiation and assurances, and remedies.

B. Summary Of The Committee's Conclusions

The Committee's principal concern was whether this proposed uniform state law, which would apply to the licensing of many copyrighted works, conflicts with the policy of promoting the creation of works for the public good mandated by the Copyright Clause of the Constitution, Article I, §8, cl.8, and embodied in the Copyright Act of 1976, 17 U.S.C. § 101 *et seq.* ("Copyright Act"). The Committee focused on the preemption doctrine because it is the primary vehicle by which potential conflicts between state and federal law are evaluated.

The Committee recognizes that the convergence in information industries, the growth of digital technologies, and the increased use of mass market licenses create issues that may not be adequately addressed by existing law. The Committee believes, however, that, in dealing with these issues, UCITA raises serious questions under copyright law:

1. UCITA includes some provisions that conflict directly with provisions of the Copyright Act and that may therefore be preempted.

⁶ Prefatory Note to UCITA, Introduction.

⁷ Id.

2. UCITA interferes with federal policy that there be a uniform national copyright law and will create confusion about the legal rules applicable to copyright licensing; and
3. UCITA validates market-wide restrictions on copying and other uses that copyright law permits.

II. FEDERAL PREEMPTION

A. Source And Types Of Federal Preemption

Federal preemption of state law has its source in the Supremacy Clause of the U.S. Constitution.⁸ Under that clause, federal law may preempt state law in three ways: (1) Congress may expressly preempt state law ("express preemption"); (2) preemption may be implied when federal law is sufficiently comprehensive to make reasonable the inference that Congress left no room for supplementing state regulation; or (3) a state statute is preempted either when compliance with both federal and state laws is a physical impossibility or where state law stands as an obstacle to the accomplishment and execution of Congress's full purposes and objectives ("conflict preemption").⁹

Section 301 of the Copyright Act is an example of express preemption.¹⁰ Section 301(a) specifies two elements that must be met for federal preemption: (1) the work must come within the subject matter of copyright specified in Sections 102 and 103 (the subject matter requirement); and (2) the nature of the claim asserted must be equivalent to any of the exclusive rights within the general scope of copyright as specified in Section

⁸ The Supremacy Clause provides: "This Constitution, and the Laws of the United States, which shall be made in Pursuance thereof, and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land." U.S. Const., art. VI, cl. 1.

⁹ Hillsborough County v. Automated Medical Lab., Inc., 471 U.S. 707, 713 (1985); Association of American Medical Colleges v. Cuomo, 928 F.2d 519, 522 (2d Cir. 1991) (relying on Darling v. Mobil Oil Corp., 864 F.2d 981, 985-86 (2d Cir. 1989)). See generally II W.F. Patry, Copyright Law and Practice 1093-1135 (1994) and 1997 Supp. at 220-36.

¹⁰ 17 U.S.C. § 301 (1976), which Congress described as one of the "bedrock provisions" of the Copyright Act. H.R. Rep. No. 94-1476 at 129 (1976) ("House Report").

106 (the general scope requirement).¹¹ The statute states that for any work meeting these two requirements, "no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any state."

Under Section 301, courts have held preempted state laws that attempt to protect works that fall within the subject matter of copyright from conduct that is equivalent to the rights reserved to a copyright owner -- reproduction, distribution, creation of derivative works, public performance -- but that are cast under state law theories such as misappropriation, unfair competition, unjust enrichment, contract, and conversion.¹² To so protect works within the subject matter of copyright would allow the states to "expand the perimeters of copyright protection to their own liking" and "run directly afoul" of Congress's purpose to "avoid ... vague borderline areas between State and Federal protection."¹³

The preemption inquiry does not end, however, with Congress's statement of express preemption in Section 301. "We must proceed to determine whether the challenged state statute is void under the Supremacy Clause * * * and 'to determine whether, under the circumstances of this particular case, [the state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.'"¹⁴

¹¹ The Second Circuit has described Section 301 as a "sweeping displacement of state law," Computer Associates Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir.1992), and the legislative history confirms that this was Congress's intention. House Report, at 130-31.

¹² See e.g., National Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 848-54 (2d Cir.1997) (holding that NBA's state law claim of misappropriation of its game scores is preempted); see also II W.F. Patry, Copyright Law and Practice 1115-26, collecting cases.

¹³ Harper & Row Publishers, Inc. v. Nation Enterprises, 723 F.2d 195, 200 (2d Cir. 1983) (quoting House Report at 130), rev'd on other grounds, 471 U.S. 539 (1985).

¹⁴ Goldstein v. California, 412 U.S. 546, 561(1973) (quoting Hines v. Davidowitz, 312 U.S. 52, 67 (1941); Orson Inc. v. Miramax Film Corp., 50 USPQ 2d 1580 (3d Cir. 1999), reh'g granted, ___ F.3d ___ (3d Cir. 1999) (preempting Pennsylvania statute that interfered with motion picture distributors' right under copyright to grant exclusive licenses for more than 42 days); Vault v. Quaid Software Ltd., 847 F.3d 255, 269 (5th Cir.1988)(Vault's shrinkwrap license provisions that prohibited all copying forever of any part of programs held preempted by the Copyright Act, which permits an owner of a computer program to make certain copies (17 U.S.C. § 117), limits the term of protection (id. at § 302, 303), and allows protection only for works of authorship (id. at § 301(a)); Rodrigue v. Rodrigue, __ USPQ2d __ (E.D.La.1999) (preempting state community property law on the question of copyright ownership); American Society of Composers, Authors, and Publishers v. Pataki, 930 F. Supp. 873, 878 (S.D.N.Y. 1996) (preempting state statute whose requirements impinged upon the right of owners of performing rights to enforce those rights

B. UCITA's Approach To Preemption

The predominant approach to preemption in UCITA is "neutrality," based on the proposition that preemption is an issue of federal law which state law should not address.¹⁵ Accordingly, although a number of its provisions conflict with federal copyright law,¹⁶ UCITA's text refers explicitly to preemption only once, stating the general principle that "[a] provision of this [Act] which is preempted by federal law is unenforceable to the extent of the preemption."¹⁷

UCITA's implementation of its neutrality approach is not consistent. In some provisions that conflict with copyright law, UCITA's text obliquely signals possible preemption by making the provision applicable "to the extent allowed by other law" or unless "prohibited under other law."¹⁸ In other provisions discussed below in Section III.B, UCITA conflicts with copyright law without any qualifying language in its text.

The Committee believes that it is not sufficient to state that federal law will resolve any problems of preemption that may arise. State legislatures are obliged by the Supremacy Clause to adopt state laws that do not conflict with federal law and policy,

under the Copyright Act). See Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 479 (1974) (applying a thorough analysis of constitutional preemption – including a comparison of the objectives of the patent law's disclosure/exclusive use provisions and trade secret law's requirement of disclosure – and holding that Ohio's trade secret law was not preempted by the federal patent law, 35 U.S.C. § 101, et seq.).

¹⁵ Reporter's Notes 1 and 2 to UCITA 105.

¹⁶ See discussion, infra, Section IIIB. As noted in the Intellectual Property Overlay section of the Preface to Article 2B, "in several situations, provisions push against explicit federal rules insofar as reasonably possible."

¹⁷ UCITA 105(a). The drafters have imported concepts analogous to preemption by providing in UCITA 105(b) that "[i]f a term of a contract violates a fundamental public policy, the court may refuse to enforce the contract, may enforce the remainder of the contract without the impermissible term, or so limit the application of the impermissible term as to avoid any result contrary to public policy, in each case, to the extent that the interest in enforcement is clearly outweighed by a public policy against enforcement of the term." See Reporter's Note 3 to UCITA 105.

¹⁸ UCITA 308, 503(1). See discussion infra Section IIIB.

and that do not, by being largely silent on preemption, induce business people and their counsel to rely on state rules that may not be applied to their transactions.

UCITA does sometimes depart from "neutrality" by adopting provisions consistent with federal law, reflecting "a policy of correspondence of rules in addition to simple recognition that federal law preempts contrary state law."¹⁹ In general, however, UCITA does not attempt to make its provisions consistent with copyright law.

A related concern is that, when courts do address UCITA's conflicts with copyright law, they will do so under UCITA 105(b), the "public policy" section, and not under the principles and precedents of federal preemption. UCITA 105(b) provides that if a contractual term violates "a fundamental public policy," the court may refuse or limit the requested remedy "to the extent that the interest in enforcement is clearly outweighed by a public policy against enforcement of the term." The Reporter's Notes increase the likelihood of judicial recourse to UCITA's public policy rubric. They take an unduly narrow view of the scope and applicability of federal preemption under UCITA 105(a)²⁰ and state that courts may use a public policy balancing test under Section 105(b) to address conflicts with copyright law.²¹

¹⁹ UCITA, Preface, Information and First Amendment; UCITA 503(1)(A) and Reporter's Note 3a. The Reporter's Notes to Article 2B, referring to a federal rule on transfers of non-exclusive licenses, acknowledged that "a [state] default rule which ignores this preemptive provision creates true traps for the unwary." Article 2B, Preface, Intellectual Property Overlay.

²⁰ Reporter's Note 2 to UCITA 105(a) (Federal Law: Preemption) (citations omitted).

²¹ Reporter's Note 3 to UCITA 105(b) (Public Policy Invalidation) provides, in part, as follows:

In part because of the transformations caused by digital information, many areas of public information policy are in flux and subject to extensive debate. In several instances these debates are conducted within the domain of copyright or patent laws, such as whether copying a copyrighted work for purposes of reverse engineering is an infringement. **This Act does not address these issues of national policy, but how they are resolved may be instructive to courts in applying this subsection....**Under the general principle in subsection (b), courts ... **may** look to federal copyright and patent laws for guidance on what types of limitations on the rights of owners of information ordinarily seem appropriate, recognizing, however, that private parties ordinarily have sound commercial reasons for contracting for limitations on use and that enforcing private ordering arrangements in itself reflects a fundamental public policy enacted throughout the Uniform Commercial Code and common law. (emphasis added).

Such a test, when UCITA conflicts with copyright law, is inappropriate. UCITA 105(b) applies, on its face, only to contractual terms, not to UCITA's statutory default and other rules. In addition, under UCITA 105(b), courts may, but need not, consider federal law and policy, and can limit enforcement only to the extent such enforcement is "clearly outweighed" by federal public policy. These standards give insufficient weight to the Supremacy Clause.

III. UCITA INTERFERES WITH FEDERAL POLICY THAT THERE BE A UNIFORM NATIONAL COPYRIGHT LAW

A. Federal Policy Directs That Copyright Law Be National

In addition to promoting the creation of "writings," a principal goal of U.S. copyright law is national uniformity. National uniformity, the Supreme Court has observed, was "[o]ne of the fundamental purposes behind the Patent and Copyright Clauses of the Constitution."²² The Court has also referred to the Copyright Act's "express objective of creating national uniform copyright law by broadly pre-empting state statutory and common-law copyright regulation."²³

The legislative history of the Copyright Act is clear on this point. Referring to "the basic constitutional aims of uniformity and the promotion of writing and scholarship," the House Report on the 1976 Copyright Act stated that:

One of the principal purposes behind the copyright clause of the Constitution, as shown in Madison's *The Federalist*, was to promote national uniformity and to avoid the practical difficulties of determining and enforcing an author's rights under the differing laws and in the separate courts of the various States.²⁴

²² Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 162 (1989).

²³ Community for Creative Non-Violence v. Reid, 490 U.S. 730, 740 (1989) (referring to Copyright Act § 301(a)). See In re Peregrine Entertainment, Ltd., 116 Bankr.194, 199 (C.D. Cal. 1990)(Kozinski, J.) ("The federal copyright laws ensure 'predictability and certainty of copyright ownership', 'promote national uniformity' and 'avoid the practical difficulties of determining and enforcing an author's rights under the differing laws and in the separate courts of the various States.'" (citations omitted).

²⁴ House Report at 129. Madison wrote in The Federalist with respect to copyrights and patents that "[t]he States cannot separately make effectual provision for either of the cases." James Madison, The Federalist No. 43 at 270-71 (Rossiter ed. 1961).

The Report also observed that "national uniformity in copyright protection is even more essential than it was ... to carry out the constitutional intent" because "the methods of dissemination of an author's work are incomparably broader and faster than they were in 1789."²⁵

The Copyright Act of 1976 moved copyright toward greater national uniformity by eliminating the dual system in place since the Act of 1790, under which federal copyright regulated published works and state copyright regulated unpublished works. As stated in the House Report, this was a "fundamental and significant change in the present law":

By substituting a single Federal system for the present anachronistic, uncertain, impractical, and highly complicated dual system, the bill would greatly improve the operation of the copyright law and would be much more effective in carrying out the basic constitutional aims of uniformity and the promotion of writing and scholarship.²⁶

Section 301 was intended, in the words of the House Report, "to preempt and abolish any rights under the common law or statutes of a State that are equivalent to copyright and that extend to works coming within the scope of Federal copyright law." Moreover, Congress's declaration of that aim was

stated in the clearest and most unequivocal language possible, so as to foreclose any conceivable misinterpretation of its unqualified intention that Congress shall act preemptively, and to avoid the development of any vague borderline areas between State and Federal protection.²⁷

Other provisions of copyright law and jurisprudence reflect the policy of uniform, national copyright standards. To further this policy Congress gave federal courts exclusive jurisdiction in copyright cases²⁸ and incorporated a national statute of

²⁵ House Report at 129.

²⁶ Id.

²⁷ Id. at 130.

²⁸ See Richard Anderson Photography v. Brown, 852 F.2d 114, 118 (4th Cir.1988) ("Because of the need for national uniformity of copyright law . . . Congress has . . . provided for exclusive federal jurisdiction over civil actions arising under the Act."). Title 28 U.S.C. § 1338(a) provides as follows: "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patents, plant variety protection, and copyright cases."

limitations for copyright cases.²⁹ When necessary to maintain national copyright standards, Congress has imposed federal standards even concerning issues normally in

the domain of state law – for example, the Copyright Act's definition of "children" for the purpose of its termination of transfers provisions.³⁰

Federal courts have taken a similar approach. The Supreme Court, citing the need for national uniformity, has mandated a federal definition of "agency" to determine the existence of an employment relationship for the purpose of copyright's work made for hire doctrine.³¹ As stated by the Ninth Circuit, "We rely on state law to provide the canons of contractual construction, but only to the extent such rules do not interfere with federal copyright law or policy."³²

B. UCITA Fosters Confusion About Applicable Law

As a comprehensive state law covering the licensing of copyrightable subject matter, UCITA departs significantly from settled copyright law and policy. It creates an array of state law rules that parallel, overlap and sometimes conflict with the provisions of copyright law, and extends the vague borderline areas between federal and state protection that Congress has expressly sought to avoid. UCITA's inconsistencies with copyright law, and its possible impairment of copyright licensing, are of concern.

UCITA's formal requirements are an important example. The Copyright Act provides, without qualification, that any assignment or exclusive license of any copyright right "is not valid" without a "writing" signed by or on behalf of the owner of the rights

²⁹ Copyright Act § 507.

³⁰ Section 203 of the Copyright Act sets forth the termination of transfers provisions. The definition of "children" is in Section 101 of the Copyright Act. See 3 Nimmer On Copyright § 11.04[A] at 11-24.

³¹ Community for Creative Non-Violence v. Reid, 490 U.S. 730, 740 (1989). The Supreme Court cited "Congress' paramount goal in revising the 1976 Act of enhancing predictability and certainty of copyright ownership." Id. at 749.

³² S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081 (9th Cir.1989).

conveyed.³³ Under UCITA, however, oral copyright transfers and exclusive licenses are enforceable (i) if they require no or nominal consideration or payment of less than \$5,000, or (ii) if their duration is less than one year, or (iii) if there has been partial performance.³⁴ In addition, although there is federal case law suggesting that copyright law's writing requirement may not be waived,³⁵ UCITA validates oral copyright transfers if the parties have agreed in advance in a written or electronic record not to require a writing.³⁶

Where UCITA does not dispense altogether with the federal requirement of a signed writing, it substitutes the requirement of a "record" and an "authentication" for the requirement of a "writing" and signature. Its definition of record, which encompasses "information ... stored in an electronic or other medium,"³⁷ broadens the traditional concept of "writing." Likewise, an authentication under UCITA includes electronic authentications, such as by using symbols, sounds, or encryption.³⁸ UCITA 102(a)(6) expressly states that "a record or authentication may not be denied legal effect or enforceability because it is in electronic form."

UCITA's expanded concept of records and authentications appears to introduce the very uncertainty that Section 204(a) of the Copyright Act was intended to avoid. One source of uncertainty is the need for attribution of electronic authentications, a procedure

³³ "A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." 17 U.S.C. 204(a). See e.g., Effects Assocs, Inc. v. Cohen, 908 F.2d 555, 556-57 (9th Cir.1990); Eden Toys, Inc. v. Florelee Undergarment Co., 697 F.2d 27, 36 (2d Cir.1982). A "transfer of copyright ownership" includes a license "of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect" 17 U.S.C. § 101.

³⁴ UCITA 201. But see Pamfiloff v. Giant Records, Inc., 794 F. Supp. 933, 936 (N.D. Cal. 1992) (plaintiff could not rely on the doctrine of equitable estoppel and the parties' conduct to substitute for the absence of a writing under Section 204(a)). Reporter's Note 1 to UCITA 201 does refer to the Copyright Act's writing requirement.

³⁵ E.g., Konigsberg Int'l Inc. v. Rice, 16 F. 3d 355, 356-7 (9th Cir.1994).

³⁶ UCITA 201(f).

³⁷ UCITA 102(a)(58).

³⁸ UCITA 102(a)(6).

for determining whether an authentication is of a particular person.³⁹ The attribution procedure is left open by UCITA, creating the possibility of disputes about attribution and authentication. For example, a binding attribution procedure can be "established by... agreement, or otherwise adopted by the parties."⁴⁰ Presumably an attribution procedure can be adopted by oral agreement or by conduct, and need not precede the transaction.⁴¹ Additional uncertainty is created by the requirement in UCITA 214 that the attribution procedure be "commercial[ly] reasonable."

For some contracts between "merchants,"⁴² including exclusive copyright licenses, UCITA dispenses entirely with the need for authentication (*i.e.*, signature) by the party against whom enforcement is sought. If a "merchant" copyright licensor receives a record in confirmation of the license, "sufficient against the sender," and does not object to it within ten days of receipt, the license is binding on her without her authentication, provided she receives the confirmatory record "within a reasonable time" and "has reason to know its contents."⁴³ These imprecise requirements for enforceability without authentication can themselves be sources of uncertainty and dispute.⁴⁴

Another source of uncertainty and conflict with federal law is UCITA's apparent validation of agreements (including copyright transfers) even if the electronic record evidencing them no longer exists when enforcement is sought. Reporter's Note 35 to UCITA 102 states that the definition of "record" does not require "permanent storage or anything beyond temporary recordation. Fixation can be fleeting ..." Although UCITA 201(a) states that an agreement is not enforceable "unless ... the party against whom enforcement is sought authenticated a record ...", Reporter's Note 3 to that section states that "[t]here is no requirement that the record be retained."

³⁹ UCITA (a)(5).

⁴⁰ Id.

⁴¹ Reporter's Note 3 to UCITA 214.

⁴² "Merchant" is broadly defined as a person that (i) "deals in information or informational rights of the kind," or (ii) has knowledge or skill "peculiar to the practices or information involved in the transaction," or (iii) employs someone holding itself out as having such knowledge. UCITA 102(a)(47).

⁴³ UCITA 201(d).

⁴⁴ Disputes may arise, for example, not only about whether the confirmatory record was received within a reasonable time and whether the recipient had reason to know its contents, but also about whether the recipient was a "merchant" within the meaning of the statute and whether the confirmatory record was "sufficient against the sender," as required by UCITA-201(d).

If a writing by the party to be charged does exist when enforcement is sought, UCITA may still conflict with federal law because it purports to validate an exclusive copyright license even if the writing evidencing it “omits or incorrectly states a term.”⁴⁵ As stated in the Reporter’s Note to this provision, “The required record need not contain all material terms of the contract or even be designated by the parties as the contract.”⁴⁶ Under this provision, an exclusive copyright license could be valid even if the writing required by Section 204(a) of the Copyright Act was silent as to exclusivity.

UCITA's default rules on the duration of contractual rights and restrictions are inconsistent with copyright law and present similar problems. Copyright law states that the duration of rights licensed or granted after January 1, 1978 is "for the term of copyright" if the grant does not specify its duration, subject to earlier termination by the grantor or her statutory successors during a specified period.⁴⁷ This right to terminate a contractual right cannot itself be waived or contracted away. Any contract provision purporting to do so is invalid.⁴⁸

UCITA, in contrast, provides that if a contract does not specify the duration of the rights granted, they are "perpetual" for software and information used in creating certain other works, and "a time reasonable" for other information.⁴⁹ No indication is given that these provisions conflict with copyright law, except that they are qualified by the phrase "to the extent allowed by other law."

UCITA's default rules on the duration of contractual **restrictions** also conflict with federal law. The Constitution requires, and copyright law enacts, a limited term of protection for works within the subject matter of copyright. UCITA provides, however, that the right of licensors to enforce contractual use restrictions on software and some other copyrighted works is “perpetual” if the license does not specify otherwise.⁵⁰ In the

⁴⁵ UCITA 201(b).

⁴⁶ Reporter’s Note 3 to UCITA 201.

⁴⁷ Copyright Act, § 203. The only exception to this rule are grants relating to works made for hire.

⁴⁸ Copyright Act, §§ 203(a)(5), 203(b)(4).

⁴⁹ UCITA 308. Reporter's Note 6 to UCITA 308 acknowledges that the perpetual rights default rule differs from common law. Compare P.C. Films Corp. V. MGA/UA Home Video, Inc., 138 F.3d 453, 458 (2d Cir.1998) (stating in dictum that contract provision which forbids copying forever may be preempted).

⁵⁰ UCITA 308(2).

context of industry-wide standard forms imposed by licensors, this provision authorizes the equivalent of perpetual copyright protection.⁵¹

The remedy provisions of UCITA also contain potential conflicts with copyright law. UCITA 816 prohibits licensors in certain circumstances from using “electronic self-help” against a breaching licensee after cancelling the license. These restrictions may be preempted by the Digital Millennium Copyright Act, which prohibits circumvention of technological copyright protection systems. 17 USC Section 1201.⁵²

UCITA’s statute of limitations -- four years or, under certain circumstances, five years -- conflicts with the Copyright Act’s three-year statute of limitations.⁵³ In some cases, a litigant’s reliance on UCITA’s limitations period could have significant unanticipated effects. If, for example, a state court action brought in the fourth year were dismissed because it was preempted, the plaintiff would be without a remedy. Because UCITA applies expressly to licenses of “information,” it is likely to be relied on more than general statutes of limitations.

These inconsistencies with copyright law illustrate both the need for uniform national standards and the inadequacy of UCITA's neutrality approach to questions of federal preemption. Many transactions structured in reliance on UCITA's requirements and default rules may be unenforceable, in whole or in part. By enacting rules which conflict with copyright law and acknowledging that some of them may be federally preempted, UCITA provides insufficient guidance to business people and their counsel. To the unsophisticated, led to rely on possibly invalid statutory provisions, UCITA's neutrality may be a trap. To knowledgeable copyright licensors and licensees, UCITA creates considerable uncertainty about whether federal or state rules apply and the extent to which UCITA's provisions are preempted.⁵⁴

⁵¹ See discussion infra Section IV.

⁵² Reporter’s Note 1 to UCITA 816 states that “[t]here may ... be federal law issues under the Communications Privacy Act and under the Copyright Act regarding copyright security devices, but of course, this Act does not alter federal law on this matter.”

⁵³ Compare UCITA 805(a) with Section 507(b).

⁵⁴ The uncertainty is compounded by the fact that some copyright industries, or parts of them, and certain transactions are excluded from the scope of UCITA. See UCITA 103(d) and Reporter's Note 5 (Exclusions).

This confusion will be compounded by the variations that may creep into UCITA in each state as localized interests exert their influence on the legislative process. The result may be separate and divergent statutes, each with its own unique interpretation. At a time when increasingly interstate and international transactions in information require a single set of rules, enactment of UCITA would move the law in the wrong direction.

Judicial interpretation of UCITA by fifty separate state court systems will further fragment the law, as state courts become the forum of choice for cases brought under the statute. UCITA presents state courts with a system of state-created rules patterned after the rules that apply to the sale of goods, as well as choice-of-forum provisions that prima facie validate the parties' choice of state courts.⁵⁵ Many state courts will inevitably fail to recognize the preemption problems inherent in UCITA and will therefore adjudicate copyright issues reserved by Congress exclusively to the federal courts.

UCITA's basis for conferring state court jurisdiction -- namely, that the claims are for breach of contract -- is questionable. Federal courts have been held to have exclusive subject matter jurisdiction over contract claims when they are in essence copyright claims,⁵⁶ when they require the construction or interpretation of the Copyright Act,⁵⁷ or

⁵⁵ UCITA 110(a).

⁵⁶ Berger v. Simon & Schuster, Inc., 631 F. Supp. 915 (S.D.N.Y. 1986). See also CBS Catalogue Partnership v. CBS/Fox, 668 F. Supp. 282 (S.D.N.Y. 1987) (motion to dismiss copyright infringement claim arising from use of musical compositions denied because royalty agreement covering compositions pertained to past, not future infringement, and therefore "the heart of the controversy" was claim for unauthorized use beyond the scope of the agreement); Schrut v. News America Publishing, Inc., 123 Misc. 2d 845, 474 N.Y.S.2d 903 (Civ. Ct. 1984) (photographer's breach of contract claim for use of photo of Ronald Reagan's son was "in essence" a claim for copyright infringement and was therefore dismissed).

⁵⁷ T.B. Harms Co. v. Eliscu, 339 F.2d 823 (2d Cir.1964). See also Maxey v. R.L. Bryan Co., Inc., 1988 Copyright L. Dec. ¶ 26,281 (S.C. Ct. App. 1988) (breach of contract claim for failure to register copyright following plaintiff's inability to recover damages and attorneys' fees in copyright infringement action arises under Copyright Act because it requires construction of the Act); Christopher v. Cavallo, 662 F.2d 1082 (4th Cir.1981) (reversing dismissal of claim for breach of warranty following successful copyright infringement action against producer of play: "Proof of that claim plainly required the construction of the copyright laws of the United States in order to establish the existence of the infringement, for the existence of the infringement was necessary to prove the breach of warranty"); EMSA Ltd. Partnership v. Lincoln, 1997 Copyright L. Dec. ¶ 27,630 (Fla. Dist. Ct. App. 1997) (affirmed dismissal of claim for declaratory relief concerning ownership of voice billing system because it arises under copyright law).

when they entail a breach of a condition to the exercise of a copyright or involve a claim that is so material that it would give rise to a right of rescission.⁵⁸

UCITA is intended, in part, to address the inadequacy of chattel-based rules to transactions in information. As the Reporter notes, “[t]his mismatch of legal rules and the uncertainty of outcome adds complexity and cost to transactions.”⁵⁹ However, UCITA, by applying state law rules that sometimes differ from, and are subject to preemption by, federal copyright law, is likely to create its own mismatch of legal rules, causing uncertainty and added transaction costs. The Committee believes that UCITA would burden the exploitation of copyrighted works and possibly impair the value of copyrights, raising serious questions under the Supremacy Clause.⁶⁰

IV. UCITA'S VALIDATION OF USE RESTRICTIONS THAT CONFLICT WITH COPYRIGHT LAW RAISES SERIOUS PREEMPTION QUESTIONS.

UCITA confers prima facie validity on market-wide use restrictions in mass market contracts without sufficient qualifications to safeguard the kinds of use and expression contemplated by the fair use doctrine or copyright law's accommodation of

⁵⁸ Schoenberg v. Shapolsky Publishers, Inc., 971 F.2d 926, 932 (2d Cir. 1992). Conversely, claims that are merely "incidental" to a claim seeking determination of ownership or contractual rights under a copyright do not "arise under" the Copyright Act and cannot form the basis for federal subject matter jurisdiction. Id. (citing T.B. Harms Co. v. Eliscu, 339 F.2d 823 (2d Cir. 1964), and Berger v. Simon & Schuster, Inc., 631 F. Supp. 915 (S.D.N.Y. 1986)).

⁵⁹ Preface to UCITA. The Preface analogizes to the mismatch of legal rules which gave rise to the Uniform Commercial Code:

Sixty years ago, Karl Llewellyn argued that it was important to develop a contract law framework for commercial sales of manufactured goods that departed from law applicable to commerce in horses and similar chattels which shaped prior law. The rules for the one (horses) did not adequately apply to the other (manufactured goods).[Footnote omitted] While insightful judges might be able to surmount the difference, Llewellyn argued, some might not and, in any event, use of a wrong paradigm (horses) yielded uncertainty, complexity and risk of error when applied to merchantile goods.

⁶⁰ See American Society of Composers, Authors, and Publishers v. Pataki, 930 F. Supp. 873, 878 (S.D.N.Y.1996) (state statute regulating enforcement of public performance rights held likely to be preempted because it “burdens enforcement and threatens to marginalize copyright itself”).

First Amendment interests. From the earliest American copyright decisions (such as Justice Story's in Folsom v. Marsh)⁶¹ to the present, a fundamental tenet of copyright law has been the fair use doctrine, with its accommodation of the rights of intellectual property proprietors and the rights of free expression. Biographers must be able to use facts available only in private letters; critics must be permitted to describe works of art, entertainment, or scholarship in the course of producing informed commentary; journalists must be free to quote from the writings of persons or entities on whom they are reporting.⁶²

As the Supreme Court reminded us in Feist Publications, Inc. v. Rural Tel. Serv. Co., copyright law is founded on, not incompatible with, the encouragement of "others to build freely upon the ideas and information conveyed by a work . . . This result is neither unfair nor unfortunate. It is the means by which copyright advances the progress of science and art."⁶³

The Reporter's Notes to UCITA and the predecessor Article 2B suggest that this legislation would not intrude on copyright law because, unlike the Copyright Act, it merely validates two-party agreements and does not confer property rights.⁶⁴ However, by validating mass market shrinkwrap licenses without sufficient safeguards for permissible copying, UCITA confers rights more akin to property than contract rights and

⁶¹ 9 F. Cas. 342 (C.C.D. Mass. 1841).

⁶² Copyright law as a whole serves the purpose of encouraging the production of "writings" by creating a balance between the rewards given to "authors" and the access allowed to the public. The Copyright Act, in this context, works in tandem with the First Amendment to permit dissemination of, and public access to, information. Harper & Row Publishers, Inc. v. Nation Enterprises, 471 U.S. 539, 558 (1985) ("[T]he Framers intended copyright itself to be the engine of free expression"). Keeping facts in the public domain ensures an "uninhibited, robust, and wide-open" marketplace of ideas. New York Times v. Sullivan, 376 U.S. 254, 270 (1964).

The "limited Times" provision of the Copyright Clause also reflects the balance between protection and the public domain. See Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984). The same is true of the requirement of substantial similarity to prove infringement. See infra, note 72.

⁶³ Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 350 (1991).

⁶⁴ Reporter's Note 2 to UCITA 103 states: "Computer information transactions' are agreements. The Act does not deal with property rights in information." Similarly, the Preface to Article 2B, Part 2, Basic Themes stated: "A contract defines rights between the parties to the agreement, while a property right creates rights against all the world." (emphasis in original). See also ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1454 (7th Cir.1996).

thus facilitates market-wide restrictions at odds with copyright law. Mass market shrinkwrap licensing imposes market-wide restrictions whose uniformity and non-negotiability give them, in some respects, the same general scope and effect as state copyright legislation.⁶⁵ Such licenses operate not simply to affect private transactions. As applied to software, where they are currently in wide use, mass market shrinkwrap licenses are the end-point of a system which places the same use restrictions on every transfer of every software diskette or CD-ROM leaving the publisher's hands. No transferee can escape them.

The claimed distinction between a choice-based contract system and a property-based copyright system is also questionable because both shrinkwrap licensing and the terms of such licenses have become standard in the mass market software field. Consumers who need word processing software, for example, can choose only among substantially the same non-negotiable use restrictions.⁶⁶ In effect, the use restrictions in shrinkwrap licenses confer a copyright-like "right against the world."

The Committee takes no position on whether shrink-wrap licenses should be enforceable as a general matter, as opposed to shrinkwrap licenses with provisions that conflict with copyright law. However, when UCITA enforces mass market shrinkwrap licenses which prohibit copying that would otherwise constitute fair use under copyright law, it confers copyright-like protection that is inconsistent with the goals and objectives of copyright.

UCITA potentially affects the fair use of a wide variety of copyrighted works. "Computer information," UCITA's subject matter, includes fiction, history, poetry,

⁶⁵ See, e.g., Robert P. Merges, Intellectual Property and the Costs of Commercial Exchange: A Review Essay, 93 Mich. L. Rev. 1570, 1613 (1995) ("Standard form software licensing contracts, by virtue of their very uniformity and the immutability -- in other words, non-negotiability -- of their provisions, have the same generality of scope as the state legislation that is often the target of federal preemption. Furthermore, these contracts have the same effect as offending state legislation: wholesale subversion of an important federal policy."). As noted by another commentator, "permitting the parties to alter intellectual property law with a standard-form, unsigned 'shrinkwrap license,' in which even the fiction of 'agreement' is stretched to the vanishing point, exalts the (standard) form of contract law over the substance of intellectual property." Mark A. Lemley, Beyond Preemption: The Federal Law and Policy of Intellectual Property Licensing at 46 (presented at the 1998 Berkeley Center Conference on Article 2B) ("UCC 2B promises to usher in an era of 'private legislation,' in which parties who are in a position to write contracts can jointly impose uniform terms that no one can escape.")

⁶⁶ Without market alternatives, the right of a purchaser to reject a shrinkwrap license and return software for a refund under UCITA 211(b) is effectively meaningless.

databases, and any other text “obtained from or through the use of a computer, or that is in digital or equivalent form capable of being processed by a computer.”⁶⁷ For example, text on a CD-ROM⁶⁸ could be shrink-wrapped and sold subject to a license such as this:

Purchaser may not copy any portion of the contents without Publisher’s written permission except for Purchaser’s sole and exclusive personal use. Purchaser may not sell, lease, lend or otherwise transfer possession of this CD without Publisher’s written permission.

The first sentence of this license effectively circumvents copyright’s fair use doctrine⁶⁹ and its requirement of substantial similarity to prove infringement.⁷⁰ The second sentence circumvents copyright’s first sale doctrine.⁷¹

⁶⁷ UCITA 102(11).

⁶⁸ Reporter’s Note 3 to UCITA 103 (“Scope”) states that the Act “does not apply to print industries.” However, as the electronic distribution of books, magazines and newspapers increases, so will the importance of the fair use restrictions facilitated by UCITA.

⁶⁹ The fair use doctrine fosters “the creativity protected by the copyright law” and “balances the public interest in the free flow of ideas with the copyright holder’s interest in the exclusive use of his work.” Warner Bros. Inc. v. American Broadcasting Co., 720 F.2d 231, 242 (2d Cir.1983). (The court referred specifically to the parody branch of the fair use doctrine.)

⁷⁰ Like originality, the substantial similarity requirement “[strikes] a delicate balance between the protection to which authors are entitled under an act of Congress and the freedom that exists for all others to create their works outside the area protected against infringement.” Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).

⁷¹ The first sale doctrine is codified in Section 109(a) of the Copyright Act, which provides in pertinent part that “the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that particular copy or phonorecord.”

The House Report (at 79) states that Section 109(a) “does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract.” This statement indicates that at least some “conditions” on future dispositions, negotiated between buyer and seller, should not be preempted. But it may not support the validity of non-negotiated market-wide prohibitions against all future dispositions, particularly since it was written before the advent of shrinkwrap licenses.

Similarly, databases distributed on a CD-ROM or online could be sold subject to shrinkwrap or click licenses providing that purchasers will not copy any individual fact in the database.⁷² Like the example given above, this provision effectively circumvents copyright's fair use doctrine and requirement of substantial similarity to prove infringement.⁷³

Under UCITA, all the above contractual use restrictions would be prima facie valid. UCITA increases the likelihood that providers of information will seek to impose market-wide use restrictions such as these through shrinkwrap or click licenses and that the restrictions will be upheld and enforced by state court judges.

These potentially far-reaching effects are particularly troubling because the provisions on which they are based do not restate established law. The Fifth Circuit has invalidated a shrinkwrap license provision which conflicted with copyright law, as well as state legislation purporting to validate such contract provisions.⁷⁴ The Second Circuit has indicated in dictum that even a privately negotiated contractual provision that

⁷² Though discrete facts are not copyrightable, UCITA's definition of licensable "information" suggests that discrete facts, as well as compilations of facts, may be protected. UCITA-102(37) defines "Information" as "data, text, images, sounds, mask works, or computer program, **including** collections or compilations thereof." (emphasis added). Cf. Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991).

⁷³ This Report does not address the proposed legislation in Congress dealing with databases or take any position regarding any legal argument supporting or opposing the validity of such legislation. See H.R. 354 ("Misappropriation of Collections of Information").

⁷⁴ Vault Corp. v. Quaid Software Ltd., 847 F.2d 255 (5th Cir.1988). Vault claimed that Quaid's copying and decompilation of Vault's program to determine how it worked violated the shrinkwrap agreement and the Louisiana Software License Enforcement Act, which authorized a perpetual prohibition of any copying or decompilation (and reverse engineering) of any portion of a computer program. The Fifth Circuit affirmed the district court's holding that the state statute was preempted both because it conflicted with express provisions of the Copyright Act and because it "touched upon" areas of federal copyright law. First, the court noted that the total prohibition on copying conflicted with the copying right allowed to an authorized owner of a copy of a computer program under Section 117. In addition, the perpetual restriction on copying conflicted with the limited term of copyright required by the Constitution and the Copyright Act. Finally, the prohibition of copying any part of a computer program, even those parts not protected by copyright, conflicted with the directives of the Constitution and the Copyright Act that only "original works of authorship" be protected.

conflicted with copyright law might be subject to federal preemption.⁷⁵ Other courts have invalidated publishers' or sellers' use restrictions that were inconsistent with copyright law.⁷⁶

In view of these concerns, the Committee believes that, before approving UCITA, NCCUSL should consider more fully the following question: whether a system of state contract law, that permits licensors to impose market-wide restrictions on uses safeguarded by copyright law, is preempted because it "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."⁷⁷

⁷⁵ P.C. Films Corp. v. MGM/UA Home Video Inc., 138 F.3d 453, 458 (2d Cir.1998). The Second Circuit questioned whether a negotiated contract that extended beyond the copyright renewal period would be enforceable under federal law. The court questioned the district court's conclusion that a grant of "the perpetual and exclusive right to distribute" a film was "merely a contract between two private parties" that did not affect the process by which the film would fall into the public domain:

We are not convinced that this analysis gives sufficient weight to federal copyright law and the constitutional principle that a grant of copyright can be for "limited Times" only. See U.S. Const. Art. I, § 8, cl.8.

⁷⁶ Judge Learned Hand concluded under the 1909 Copyright Act that a recording company and performer could not rely on legends on record albums (not then protectible as sound recordings under copyright) stating that they were "Not Licensed for Radio Broadcast" or were "For Non-Commercial Use on Phonographs in Homes" to prevent their being played on the radio. RCA Mfg. Co. v. Whiteman, 114 F.2d 86, 89 (2d Cir.1940). He reasoned that the same rule applies to a work not protected by copyright as does to a work that is. Id. ("[W]e see no reason why the same acts that unconditionally dedicate the common-law copyright in works copyrightable under the act, should not do the same in the case of works not copyrightable."). In so ruling, Learned Hand relied on Jewelers' Mercantile Agency v. Jewelers' Pub. Co., 155 N.Y. 241, 254 (1898), which held that a compiler of a directory of jewelers' names and identifying information could not both make a general publication of its copyrightable book and maintain common law copyright through the fiction of a lease offered to all comers which restricted transfer of the book and use of the information in it. Once it published the book generally, the compiler possessed only those rights conferred by copyright law.

⁷⁷ Hines v. Davidowitz, 312 U.S. 52, 67 (1941). See generally David Nimmer, Elliot Brown & Gary N. Frischling, The Metamorphosis of Contract into Expand*, at 22-24 (presented at the 1998 Berkeley Center Conference on Article 2B). See also David A. Rice, Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering, 53 U. Pitt. L. Rev. 543 (1992), and Merges, supra, note 66.

Although they raise related policy issues, we have not considered here instances of copyright misuse, *i.e.*, where use of a copyright conflicts with some other law or policy, such as antitrust. See, *e.g.*, Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908) (resale price maintenance); Practice Management Info. Corp. v. American Med. Ass'n, 121 F.3d 516 (9th Cir.1997) (AMA licensed its coding system on condition that licensee not license any other coding system); DSC Communications Corp. v. DGI Tech., Inc., 81 F.3d 597, 601 (5th Cir.1996) (plaintiff conditioned its copyright license on defendant's use of plaintiff's

V. CONCLUSION

National uniformity is essential to an effective copyright system. Uniformity furthers predictability in copyright ownership and transactions, which is especially important in the contemporary economy built around non-localized dealings in copyright properties. The Committee believes (i) that UCITA significantly diminishes national uniformity by establishing state copyright licensing rules that overlap and sometimes conflict with federal copyright law, and (ii) that revision of the law governing information transactions, which are increasingly national and international in scope, is more appropriately undertaken at the federal level.

Copyright law also seeks "[t]o promote the Progress of Science and useful Arts" through a system of limited protection for original works of authorship that maintains a balance between what is protected and what is reserved for the public domain and the creation of future works. The Committee believes that UCITA may upset this balance by validating mass market shrinkwrap and click licenses which prohibit fair use and other conduct permitted by copyright law.

UCITA's impact on the copyright system raises serious Supremacy Clause questions that require closer scrutiny.

equipment); Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 979 (4th Cir.1990) (plaintiff's license prohibited licensee and its employees from creating competing computer programs for 99 years). Cf. Brulotte v. Thys Co., 379 U.S. 29 (1964) (obligation to pay royalties in return for use of patented device may not extend beyond the life of the patent).

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Dissent

I agree with the Committee that certain provisions of UCITA as currently drafted conflict directly with, and are preempted by, federal copyright law. I believe, however, that the Committee could make a more constructive contribution if it devoted more time to considering how UCITA and the copyright law might coexist. Clearly changes need to be made to UCITA. It is also appropriate at least to consider whether in some areas of conflict the copyright law should be modified to facilitate electronic contracts (something that the Committee's Report does not address). Electronic commerce in copyrighted works is here to stay, and both contract law and copyright law must evolve. Trying to do this through a uniform state law (and possibly also through federal legislation) seems preferable to allowing courts and legislatures to make accommodations piecemeal. In short, I believe that UCITA's goal is a worthy one (even if its execution may be wanting), and the substantial effort that went into its drafting deserves a response from the Committee that helps more to advance than to quash the process of drafting a uniform law to facilitate electronic commerce in copyrighted works.

More troubling, however, is the broad sweep of some of the Committee's conclusions, which have implications inadequately explored by the Committee. Specifically, I take issue with the Committee's blanket conclusion in Section IV that shrinkwrap licenses⁷⁸ with provisions that "conflict" with copyright law should be unenforceable.

The Committee takes a one-sided view of licensing. On the one hand, it appears to be saying that a copyright owner may be able to agree, in a shrinkwrap license, to give up rights granted to it by the copyright law, but on the other hand, that users may not agree to give up privileges granted to them by the copyright law. The copyright law, however, clearly gives users the right to bargain away their rights and privileges. *See, e.g.*, H.R. Rep. 1476 (94th Cong., 2d Sess.) 79 (1976) ("House Report") (stating, in connection with the "first sale doctrine" in section 109(a): "This does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright."); *id.* (stating, in connection with a limitation on the scope of the copyright owner's exclusive right to control public display of a copy of a work: "As in cases arising under section 109(a), this does not mean that contractual restrictions on display between a buyer and seller would be unenforceable as a matter of contract law.")⁷⁹

⁷⁸I use the term "shrinkwrap" to embrace online "clickwrap" licenses as well.

⁷⁹ When Congress wanted to preclude a party from transferring rights or privileges under copyright, it did so explicitly. *See, e.g.*, 17 U.S.C. section 203(a)(5) ("Termination of the grant may be effected notwithstanding any agreement to the contrary. . .").

In my view, the Committee cannot reach its broad conclusion concerning shrinkwrap agreements by dismissing the legislative history with nothing more than “it may not support the validity of non-negotiated market-wide prohibitions. . . .” (n. 71) True, as the Committee points out, the House Report was written before the advent of shrinkwrap licenses. But the House Report was written in the context of many broad, industry-wide standard-form agreements that differed from shrinkwrap licenses only in that they were signed.

The Committee’s apparent conclusion that shrinkwrap agreements deserve different treatment under the preemption doctrine than other agreements overlooks a number of significant points. First, such agreements are not the equivalent of law, since they bind only parties in privity. Second, the existence of a shrinkwrap agreement does not preclude the user from seeking different terms from the copyright owner. (While this is the exception and not the rule, it does happen, in my experience.) Third, many signed agreements are regularly executed with as little negotiation or opportunity to negotiate their provisions as with shrinkwrap licenses. Fourth, many signed and negotiated licenses contain the same types of provisions in derogation of users’ privileges under copyright (in exchange for certain rights under the contract) that are commonly present in shrinkwrap agreements.

Preemption in the context of copyright licenses raises complicated issues. They are worthy of a finer, more nuanced analysis than the Committee’s report provides.

The Committee has not persuasively articulated a basis for its conclusion that the copyright law permits no derogation of users’ rights in a shrinkwrap license. Certainly not all provisions in a shrinkwrap that derogate from users’ rights and privileges under the copyright law are necessarily valid. But the same is true of so-called “negotiated” licenses. A provision that would prohibit redistribution of even a single item of information, for example, would be problematic in either case. The preemption determination more appropriately rests on the nature of the restriction in the circumstances of a particular license. Consider, for example, a shrinkwrap agreement that permits users in academic institutions to license a work at 50% of the license fee charged to commercial users, provided they agree not to use material from the copyrighted work for commercial purposes. This may be an entirely reasonable bargain on both sides, and I find nothing in the Report or the copyright law that justifies the conclusion that such a transaction is necessarily unenforceable because it is preempted by copyright.

It is difficult to see how the fundamental goals of the copyright law will be served by deeming unenforceable all shrinkwrap agreements that trade off benefits of copyright ownership for a derogation in users’ rights, regardless of the nature or context. Indeed, the Committee’s imbalanced view of shrinkwrap licenses has the real potential of inhibiting the broad distribution of information. Shrinkwrap agreements are inherently more efficient than signed licenses in reaching large numbers of users. If users cannot be held to restrictions such as those in the example above, the copyright owner, if it chooses to engage in shrinkwrap licensing, will be compelled to provide its copyrighted works with rights a particular user may not need but with a price and other contractual provisions sufficient to compensate it for providing the mandated rights. Or the copyright owner may simply choose to forego shrinkwrap licensing and use only signed agreements. Either result places at risk differential pricing and other contractual benefits

accorded to research, scholarship or other noncommercial uses, and potentially makes information less accessible to users.

Even with certain restrictions on users' privileges under the copyright law, the flow of information that shrinkwrap licenses permit may enhance rather than derogate from the "Progress of Science and useful Arts." The extent it does so will depend on the circumstances and the contractual restrictions at issue in a particular case.

UCITA should not bar a licensee from arguing that specific provisions of a license agreement are unconscionable, illegal, preempted and/or violative of public policy. But concerns about possible overreaching by licensors do not justify completely removing from the ambit of UCITA any shrinkwrap agreement that potentially requires a licensee to give up a right or privilege under copyright. The Committee's conclusion may have the benefit of providing certainty, but it jeopardizes a commercial mechanism that has advantages for both licensees and licensors.

I agree with the Committee that UCITA requires closer scrutiny. I believe that the Committee's conclusions concerning the enforceability of shrinkwrap agreements do as well. A shrinkwrap agreement should not be deemed unenforceable merely because a user agrees to yield a privilege it might otherwise have under copyright. Because the Committee concludes otherwise, I respectfully dissent.

June M. Besek