

# The Privatization (or “Shrink-Wrapping”) of American Copyright Law

Charles R. McManis†

*One of the specific purposes of proposed UCC Article 2B is to make enforceable a variety of “mass-market licenses,” including both “shrink-wrap licenses” that are typically contained in the packaging of mass-distributed software and their electronic equivalent, “click here” contracts, that govern access to digital information. This Comment argues that, unless Article 2B is amended to prohibit, or at least to discourage, the use of mass-market licenses to require users of copyrighted works to waive their federally-created privilege to make fair use of copyrighted works, this new contractual device will be used to secure all of the benefits of federal copyright law, with none of its limitations—resulting in the “privatization” or “shrink-wrapping” of American copyright law.*

## INTRODUCTION

Professor Lemley’s Article<sup>1</sup> provides a perceptive glimpse into and beyond the protracted preemption conflict that will inevitably engulf the adoption of proposed Uniform Commercial Code Article 2B in its current form. To complement Professor Lemley’s Article, this Comment focuses on the damage that Article 2B will, in the meantime, inflict on federal copyright policy unless some version of the now infamous McManis motion is adopted to bring Article 2B back into balance.<sup>2</sup> What we face, in a word, is the imminent privatization, or “shrink-wrapping,” of American copyright law.

Imagine going to your local megabookstore or friendly neighborhood public library next week and discovering that all the new book

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† Professor of Law, Washington University, St. Louis. B.A. 1964, Birmingham-Southern College; M.A., J.D. 1972, Duke University.

1. Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111 (1999).

2. For a discussion of the McManis motion, see *infra* notes 12-16 and accompanying text.

covers are equipped with snaps and stamped with notices stating that unsnapping the book will bind the person to a contract printed on the inside cover. Imagine, further, that the contract places strict limits on the uses that students, teachers, educational institutions, libraries, photocopy services, and even browsers such as yourself can make of the book—uses that in many cases are clearly permissible under federal copyright law. Finally, imagine lawyers arguing and courts agreeing that the contract is enforceable and not in conflict with federal copyright law because, after all, it creates a mere contract between two parties, and not a property right enforceable against the world.

That's the kind of argument, you might say, that gives lawyers (and the legal system) a bad name. Unfortunately, the two prestigious law reform organizations responsible for suggesting amendments to the Uniform Commercial Code (U.C.C.)—which, of course, governs commercial contractual relations throughout the United States—are about to be taken in by just such an argument and turn it into law.

In the proposed Article 2B, which will cover the licensing of digital and other information, the Drafting Committee, jointly sponsored by the American Law Institute (ALI) and the National Conference of Commissioners on Uniform State Laws (NCCUSL), has included a provision that would specifically make enforceable what the drafters call "mass-market licenses."<sup>3</sup> These licenses are more widely known in the trade as "shrink-wrap" licenses, because they commonly appear on computer software packages that are sealed in transparent wrapping by means of a shrink-wrap process.

The typical software shrink-wrap license purports to obligate anyone who breaks the seal to comply with various contractual terms, often found only inside the box and thus unreviewable until after the seal has been broken. Anyone who takes the time to read the contract is in for some nasty surprises—beginning with the discovery that, even though a sales tax may have been charged, the transaction wasn't really a sale at all, but apparently a perpetual lease, subject to all of the use restrictions contained in the contract. Any "lessee" who doesn't care for these terms is typically directed to return the software for a refund. (Never mind that by the time the "lessee" discovers all this, the retail store

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3. The relevant provision is currently numbered § 2B-208. [All versions of Article 2B are available on the Internet. See National Conference of Commissioners on Uniform State Laws, *Drafts of Uniform and Model Acts of Official Site* (last modified Sept. 2, 1998) <<http://www.law.upenn.edu/library/ulc/ulc.htm>>. The *Official Site* offers the Article 2B drafts in several file formats, among which the pagination is inconsistent. In this Comment and throughout this issue of the *California Law Review*, page references are to the pages as they are numbered in the Acrobat PDF file format. Only the prefaces to the drafts are cited by page number; all other material is cited by section number. The draft of August 1, 1998, has no page numbers in its on-line versions, and therefore the preface of that draft is cited without page references. *Ed.*]

from which the software was "leased" is a hundred miles down the interstate.)

Until recently, many lawyers and judges probably would have agreed with L. Ray Patterson and Stanley W. Lindberg, who argued in 1991 that shrink-wrap licenses of mass-distributed copyrighted works "are almost surely against public policy as unilateral attempts to override public law . . . in an adhesion contract."<sup>4</sup> But now that the Internet has burst upon the digital scene as a mass distribution channel for software and other digital data, the question of the hour has become whether or not "click-here" contracts (i.e., electronic shrink-wrap licenses) should be enforceable.

The one virtue that "click-wrap" contracts have over conventional shrink-wrap licenses is that a user can (at least in theory) read the contract before "signing." However, the same onerous user restrictions are likely to be included. If these terms are indeed found to be enforceable, one can be sure that they will show up in virtually every click-wrap contract.

#### *The Current State of Copyright and the Article 2B Threat*

To be sure, under existing federal copyright law, the owner of a copyright to an unpublished literary or artistic work can normally condition access to the work on whatever terms the copyright owner wishes. (Library archives may be an exception, but that's another story.<sup>5</sup>) After a work has been published (i.e., mass-marketed), however, the copyright owner generally must rely on a mix of private contracts entered into before the work was published (for example, the publishing contract itself) and the public "contract" embodied in federal copyright law.

Federal copyright law, in turn, establishes a carefully qualified set of "copy rights," and also certain users' privileges designed, in the words of the U.S. Constitution, to promote "the Progress of Science and useful Arts."<sup>6</sup> Included among these users' privileges is the privilege to make "fair use" of a work for such purposes as criticism, comment, news reporting, teaching, scholarship, or research.<sup>7</sup> Libraries and archives are specifically allowed to make single copies in connection with interlibrary loan programs and provide without danger of legal liability photocopy machines for public use, so long as a copyright notice is posted.<sup>8</sup> The lawful owner of a copyrighted work is specifically allowed to sell or otherwise dispose of the possession of that work (the so-called

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4. L. RAY PATTERSON & STANLEY W. LINDBERG, *THE NATURE OF COPYRIGHT* 220 (1991).

5. See *infra* note 40 and accompanying text.

6. U.S. CONST. art. 1, § 8, cl. 8.

7. See 17 U.S.C. § 107 (1994).

8. See *id.* § 108.

first-sale doctrine).<sup>9</sup> Teachers and students in non-profit educational institutions are specifically allowed to perform or display works in a classroom or instructional setting, make secondary transmissions of a primary transmission embodying a performance or display of a work, and make a limited number of archival copies of such secondary transmissions.<sup>10</sup> And the lawful copy owner of a computer program is specifically allowed to make a back-up copy and use, or even adapt the computer program for use with a particular machine.<sup>11</sup>

If shrink-wrap licenses and click-here contracts are made enforceable, however, the copyright industry (i.e. book, music, and software publishers, movie studios, record companies, and the like) will essentially be able to have its cake and eat it too. It can mass-distribute its copyrighted works, but at the same time include shrink-wrap licenses or click-here contracts requiring users to relinquish some or all of their federally created users' privileges. The result (at least in the short run) will be the privatization or shrink-wrapping of American copyright law.

Without some version of the eleventh-hour amendment that was adopted at the ALI annual meeting in May, 1997, the mass-market licensing provision of the proposed U.C.C. Article 2B will permit just that. And unless the ALI-NCCUSL Drafting Committee or its sponsoring organizations can be persuaded to adopt the substance of that amendment, the mass-market licensing provision in Article 2B is virtually certain to upset the federal copyright bargain.

Article 2B's mass-market license provision is designed to govern practically all mass-market licenses of copyrighted material, and also any licenses of uncopyrightable information, such as the white pages of the telephone directory or other data that lack sufficient originality in arrangement and selection to qualify as a work of authorship. The eleventh-hour ALI amendment (the "McManis motion") proposed by the author of this Comment and adopted by a razor-thin margin, states that a contractual term that is inconsistent with certain provisions of federal copyright law, including the various "users' rights" enumerated there, cannot become a part of a contract under the mass-market license provision.<sup>12</sup>

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9. See *id.* § 109.

10. See *id.* §§ 110-112.

11. See *id.* § 117.

12. The ALI-approved motion would amend the mass-market licensing provision to state that a mass-market license term that is "inconsistent with 17 U.S.C. Section 102(b) or with the limitations on exclusive rights contained in 17 U.S.C. Sections 107-112 and 117" cannot become a part of a mass-market license. The American Law Institute, Uniform Commercial Code, Article 2 (Sales), Article 2B (Licenses), Revised Article 9 (Secured Transactions; Sales of Accounts, Chattel Paper, and Payment Intangibles; Consignments): Motions to be Submitted at the Seventy-Fourth Annual Meeting on May 19, 20, 21, and 22, 1997 (May 9, 1997). The motion does not say that inconsistent terms cannot become a part of some other type of contract, nor does it prohibit terms that are "consistent"

The ALI amendment brought about a barrage of complaints by the Information Industry Association (IIA), leading NCCUSL to adopt a motion calling on the ALI to reconsider the McManis motion.<sup>13</sup> Out of the barrage of complaints registered with NCCUSL over the McManis motion, the following three concerns emerged: 1) worry about the McManis motion's effect on licenses governing information contained in databases; 2) fear that the McManis motion will embroil state legislatures in policy issues that are better left to Congress and international negotiations, and will force state courts to consider federal copyright questions, leading to inconsistencies that Congress sought to avoid; and 3) concern that the McManis motion would alter the "neutrality" of Article 2B with respect to unsettled questions of federal copyright law. I discuss each concern in turn.

## I

### THE EFFECT OF THE MCMANIS MOTION ON LICENSES GOVERNING INFORMATION CONTAINED IN DATABASES

The first concern expressed by the IIA was that under the McManis motion, "a licensor could not by contract limit the use of copyrighted information it made available, nor could it protect itself at all against licensee or third-party use of non-copyrighted information (e.g., a directory)."<sup>14</sup> The IIA is wrong on both counts.<sup>15</sup> To begin with, information as such cannot be copyrighted. Thus, a contract governing the use

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with the enumerated provisions of federal copyright law from becoming a part of a mass-market license.

13. See Laura Mahoney, *NCCUSL Members Ask ALI to Reconsider Tying Article 2B to Federal Copyright Law*, 66 U.S.L.W. 2085 (Aug. 12, 1997). The author readily confesses to a mixture of bewilderment and elation in the discovery that a motion of one lone law professor could (according to its detractors) threaten to bring the American stock market—and indeed the entire economy—to its knees. Never underestimate the power of the pen!

14. Information Industry Association, Comments of the Information Industry Association on Article 2B and Prof. Charles McManis' Proposed Amendment to section 2B-308 (July 18, 1997) [hereinafter IIA Comments on McManis Motion].

15. The specific trigger for the information industry's concern was apparently the reference in the McManis motion to § 102(b) of the 1976 Copyright Act. That provision of the Copyright Act states that "[i]n no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work." 17 U.S.C. § 102(b) (1994).

Embodied in the language of 17 U.S.C. § 102(b), however, is the bedrock principle that federal copyright protection does not (and, as a federal constitutional matter, cannot) extend to facts or ideas *per se*, but only to their expression, selection, and arrangement. According to the late Professor Melville Nimmer, it could be argued that "because Congress may not legislate copyright protection for facts, it likewise may not preempt the states from enacting such legislation." 1 MELVILLE B. NIMMER, *NIMMER ON COPYRIGHT* § 1.01[B][2][h] (1997). If that is true, a state statute enforcing a mass-market license governing licensee or third-party use of non-copyrighted information would not be "inconsistent" with § 102(b) of the 1976 Copyright Act, and thus would not be prohibited by my proposed amendment to the mass-market license provision of Article 2B.

of information is arguably unaffected by the McManis motion.<sup>16</sup> If there is any uncertainty on the latter point, it is not because of the McManis motion itself, but because of the continuing uncertainty over whether Congress in the 1976 Copyright Act intended—or indeed had the constitutional power under the Copyright Clause of the U.S. Constitution—to preempt state protection of data.

At the root of that uncertainty is an extremely confusing statement in the legislative history of the 1976 Copyright Act that as long as a work “come[s] within the subject matter of copyright as specified by sections 102 and 103” of the 1976 Act, federal copyright law “prevents States from protecting it even if it . . . is too minimal or lacking in originality to qualify, or because it has fallen into the public domain.”<sup>17</sup> This statement has led some lower federal courts, most notably the court in *ProCD, Inc. v. Zeidenberg*,<sup>18</sup> to conclude that “data . . . are ‘within the subject matter of copyright’ even if, after [*Feist Publications, Inc. v. Rural Telephone Service Co.*]<sup>19</sup>, they are not sufficiently original to be copyrighted.”<sup>20</sup>

This particular conclusion (and much else in the *ProCD* case) is highly debatable. As the Supreme Court resoundingly reaffirmed in *Feist*, originality is not merely a statutory, but a *constitutional*, requirement.<sup>21</sup> Thus, even though the legislative history of the 1976 Copyright Act may demonstrate a congressional intent to preempt state law that protects works that lack sufficient originality to achieve federal

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16. If it would placate the information industry, I would be happy for an amended mass-market provision to track the language of the 1976 Copyright Act even more closely, so as to read:

(h) A term governing the subject matter of copyright, as specified by 17 U.S.C. §§ 102 and 103, that is inconsistent with 17 U.S.C. §§ 107-112 and 117 cannot become part of a contract under this section.

In the alternative, the definition of a “mass-market transaction” in § 2B-102(25) could be amended to except from the definition:

(E) a term governing the subject matter of copyright, as specified by 17 U.S.C. §§ 102 and 103, that is inconsistent with 17 U.S.C. §§ 107-112 and 117.

17. H.R. REP. NO. 94-1476, at 129-31 (1976), reprinted in 1976 U.S.C.C.A.N. 5745-47.

18. 86 F.3d 1447 (7th Cir. 1996).

19. 499 U.S. 340 (1991).

20. 86 F.3d at 1453 (quoting *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 656-57 (1996)). The *Feist* decision, which limited the scope of federal copyright law by repudiating the notion that federal copyright law extends to the protection of data collected “by the sweat of the brow,” 499 U.S. at 352, is precisely the reason the information industry is pushing for the proposed Article 2B.

As we will see, the *ProCD* case has been warmly embraced by the information industry and the drafters of Article 2B, because it held shrink-wrap licenses enforceable and not preempted by federal copyright law. For criticisms of that holding, see *infra* notes 36-38 and accompanying text. In any event, it is hardly in the best interest of the information industry to embrace the *ProCD* decision with quite the gusto that it has. In so doing, it is tacitly conceding that Congress, in § 301(a) of the Copyright Act of 1976, indeed did intend (and in fact has the constitutional power under the Copyright Clause of the Constitution) to preempt any form of state database protection that creates rights equivalent to federal copyrights.

21. See 499 U.S. at 346.

protection, the Supreme Court's holding in *Feist* suggests that such works might nevertheless be held *not* to "come within the subject matter of copyright," as required by section 301(a) of the Act, because such subject matter may be wholly beyond the constitutional authority of Congress either to regulate or to preempt, at least as far as the Copyright Clause of the U.S. Constitution is concerned.<sup>22</sup>

Which brings us to the second concern that the information industry raised about the McManis motion.

## II

THE LIKELIHOOD THAT THE MCMANIS MOTION WILL EMBROIL STATE LEGISLATURES IN POLICY ISSUES THAT ARE BETTER LEFT TO CONGRESS AND INTERNATIONAL NEGOTIATIONS, AND WILL FORCE STATE COURTS TO CONSIDER FEDERAL COPYRIGHT QUESTIONS, LEADING TO INCONSISTENCIES THAT CONGRESS SOUGHT TO AVOID

The information industry also questioned whether state legislative action on the issue the McManis motion is designed to address is "appropriate at a time when similar questions are being considered at the international and federal policy levels."<sup>23</sup> According to the information industry, the McManis proposal will cause states "to enter a legislative arena that really belongs to Congress,"<sup>24</sup> and "risks placing state legislatures in the unenviable position of crafting law that may be superseded in short order."<sup>25</sup>

One industry spokesperson is also reported to have stated that the McManis motion would lead to state court interpretations of copyright law, raising the possibility of inconsistent interpretations between states, and by state and federal courts, a result Congress sought to avoid in adopting federal copyright law.<sup>26</sup> These objections are laden with irony, to say the least. The information industry would have us believe that, in the Article 2B drafting project, NCCUSL somehow is not already up to its earlobes in issues that might better be left to Congress and international negotiations, and that, unamended, Article 2B will somehow avoid any conflict with or preemption by federal copyright and/or patent law.

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22. For a detailed discussion of federal copyright preemption of state law, see NIMMER, *supra* note 15, § 1.01[B]. For an argument that federal patent law might preempt state shrink-wrap licensing laws, see Charles R. McManis, *Intellectual Property Protection and Reverse Engineering of Computer Programs in the United States and the European Community*, 8 HIGH TECH. L.J. 25, 91-95 (1993).

23. IIA Comments on McManis Motion, *supra* note 14; see also, e.g., Letter from Consolidated Tape Association to Commissioner John F. Andrews (July 17, 1997) (on file with author) [hereinafter Consolidated Tape Association].

24. See Consolidated Tape Association, *supra* note 23.

25. IIA Comments on McManis Motion, *supra* note 14.

26. See Mahoney, *supra* note 13, at 2085 (reporting a letter of R. Patrick Thompson, President of NYMEX).

In reality, with or without the McManis motion, NCCUSL's proposed Article 2B will put state legislatures in precisely the position of crafting law that might, in short order, be superseded by preemptive federal law.

As the information industry itself points out,<sup>27</sup> discussions are currently underway in Congress and in the World Intellectual Property Organization regarding new forms of protection for databases that are not otherwise protected by copyright. These discussions have come about largely as a result of the European Union's recent promulgation of its Directive on Database Protection. What the information industry neglects to point out, however, is that the EU Database Directive has been the subject of withering criticism by a variety of commentators in the United States, particularly with respect to the overbroad protection that it provides and the exceedingly narrow, and indeed optional, fair use provision contained in Article 9 of the Directive.<sup>28</sup>

Moreover, even if the EU Database Directive were adopted without modification by the U.S. Congress, Article 15 of the Database Directive itself states that "[a]ny contractual provision contrary to Articles 6(1) and 8 [governing the rights and obligations of lawful users] shall be null and void."<sup>29</sup> Article 15 of the EU Database Directive is in turn patterned after a similar Article, namely, Article 9 of the previously promulgated EC Directive on Legal Protection of Computer Programs, which explicitly states that *any* contractual provisions (whether shrink-wrapped or negotiated) that are contrary to the two Articles in the EC Computer Program Directive governing permissible acts of reverse engineering of computer programs shall be null and void. Suffice it to say that neither Article 15 nor its predecessor, Article 9, resoundingly affirms the freedom to contract.

In other words, with or without my amendment, the proposed mass-market licensing provision in Article 2B may well create state law that eventually might turn out to be inconsistent with preemptive federal law modeled on the European Union Directive. Whether or not Congress decides to follow the European Union's lead on database protection, to the extent that the unamended mass-market licensing provision in Article 2B makes enforceable a mass-market license prohibition against reverse engineering of computer programs for the purpose of achieving interoperability, the provision allows contracts that would clearly conflict with Article 9 of the EC Computer Program Directive. Moreover, as

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27. See IIA Comments on McManis Motion, *supra* note 14.

28. See, e.g., J.H. Reichman & Pamela Samuelson, *Intellectual Property Rights in Data?*, 50 VAND. L. REV. 51 (1997); Charles R. McManis, *Taking TRIPS on the Information Superhighway: International Intellectual Property Protection and Emerging Computer Technology*, 41 VILL. L. REV. 207, 253-62 (1996).

29. Directive of European Parliament and Council 96/9/EC of 11 March 1996 on Legal Protection of Databases, 1996 O.J. (L 77) 20, 27.



noted above, Article 2B may very well be in conflict with, and thus preempted by, existing federal copyright and/or patent law.<sup>30</sup>

Thus, it is sheer sophistry to say that my motion (rather than the mass-market licensing provision itself) will cause states to enter into a legislative arena that more appropriately belongs to Congress. As I explained in the supporting comments to my ALI motion, the purpose of the amendment to Article 2B is precisely to avoid, or at least reduce the possibility of, a conflict with and consequent preemption by federal copyright and/or patent law.<sup>31</sup>

As for the concern that my amendment will lead to (possibly inconsistent) state court interpretations of federal copyright law, it bears pointing out that state courts (or, more commonly, federal courts in an exercise of their diversity jurisdiction) are already routinely called upon to interpret federal copyright law when construing and enforcing copyright licensing agreements. Instances in which state courts must interpret federal copyright law will skyrocket even if Article 2B is adopted without my amendment, as state courts across the country will be asked to determine whether Article 2B's mass-marketing provision is or is not preempted by federal copyright law. Indeed, without my proposed amendment to Article 2B, state courts will have to decide that question with virtually no guidance from Article 2B. One would think that the best way to avoid embroiling state courts in complex and unresolved questions of federal law is to give them clear directions in the language of Article 2B itself.

Which brings us to the third concern that the information industry raised about the McManis motion.

### III

#### THE IMPACT OF THE MCMANIS MOTION ON THE "NEUTRALITY" OF ARTICLE 2B WITH RESPECT TO UNSETTLED QUESTIONS OF FEDERAL COPYRIGHT LAW

The purpose of the NCCUSL motion calling for ALI reconsideration of my motion to amend section 2B-308 is reported to have been a call for "neutrality" on the contentious issue of the legal treatment of information products that do not qualify for protection under federal copyright law.<sup>32</sup> As I have explained in response to the information industry's first stated concern, I believe the language of my amendment

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30. See *infra* notes 36-41 and accompanying text.

31. See Memorandum from Charles R. McManis to Joseph A. Mendocino, Jr., Director of Administrative Services, American Law Institute (May 9, 1997) (transmitting McManis motion and supporting comments to the ALI) (on file with author).

32. See Mahoney, *supra* note 13.

preserves (or can be further amended to ensure) neutrality on that question.<sup>33</sup>

The larger issue, however, is whether, without my amendment, Article 2B does or should maintain a position of neutrality with respect to other uncertain, complex, or currently controversial federal intellectual property issues, as the drafters of the section claim. On this point, I take strong issue with the drafters.

At the moment, it is not at all clear under existing state and federal law 1) whether shrink-wrap licenses are enforceable contracts purely as a matter of state law; 2) whether, even if enforceable as a matter of state law, shrink-wrap licenses governing copyrightable subject matter are nevertheless preempted by section 301(a) of the Copyright Act; and 3) whether, even if shrink-wrap licenses are not entirely preempted by section 301(a), at least any shrink-wrap licenses that purport to prohibit uses of copyrightable subject matter that sections 107-112 and 117 of the Copyright Act permit are preempted as a matter of federal copyright law.

To be sure, *ProCD, Inc. v. Zeidenberg* is widely cited as having resolved the first two questions, having specifically held: 1) that a shrink-wrap license conditioning use of a computer program and accompanying database on terms that appear only inside the box nevertheless constitutes an enforceable contract under U.C.C. Article 2; and 2) that federal copyright law does not preempt enforcement of a shrink-wrap prohibition against commercial use of the computer program and database, at least not against a purchaser of the software and database who, with knowledge of the restriction, nevertheless makes commercial use of the computer program and database.<sup>34</sup> Indeed, the court in *ProCD* even stated, by way of dictum, that to the extent shrink-wrap license prohibitions against reverse engineering of computer programs facilitate distribution of object code while concealing the source code of computer programs, "they serve the same procompetitive functions as does the law of trade secrets," thus suggesting that these provisions too would escape preemption.<sup>35</sup>

However, as we have seen, *ProCD* comes to a very glib (and debatable) conclusion when it states, in applying the first part of section 301(a)'s two part preemption test, that data "are 'within the subject matter of copyright' even if, after *Feist*, they are not sufficiently original to be copyrighted."<sup>36</sup> Equally glib (and equally debatable) is *ProCD*'s conclusion that rights created by a shrink-wrap license are not

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33. See *supra* notes 15-16 and accompanying text.

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

35. *Id.* at 1455.

36. *Id.* at 1453 (quoting *ProCD, Inc. v. Zeidenberg*, 908 F. Supp. 640, 656-57 (1996)).

rights "equivalent to any of the exclusive rights within the general scope of copyright,"<sup>37</sup> as required by the second part of section 301(a)'s two-part preemption test, and *ProCD*'s further suggestion in dictum that even shrink-wrap prohibitions against reverse engineering of computer software might survive federal preemption. As numerous commentators, including myself, have pointed out, where a shrink-wrap license unilaterally purports to prohibit virtually the entire consuming public from using a mass-distributed copyrighted work in a way that federal copyright law would allow, that license arguably creates rights that are indeed the functional equivalent of "rights within the general scope of copyright."<sup>38</sup>

Even if shrink-wrap licenses are not, as a class, held to be the functional equivalent of rights within the general scope of copyright, shrink-wrap licenses that attempt to contract around federal copyright, by nullifying the various "user privileges" contained in sections 107-112 and 117 of the 1976 Copyright Act, may very well be held to so undermine the federal copyright bargain as to be expressly preempted by section 301(a) of the Copyright Act or, in any event, to be impliedly preempted. The Court of Appeals for the Second Circuit sounded a cautionary note in this regard in *Wright v. Warner Books, Inc.*,<sup>39</sup> where it quoted with approval from an earlier lower court case, *Salinger v. Random House, Inc.*:

To read [restrictions agreed upon as a condition for obtaining access to unpublished manuscripts in a university library archive] as absolutely forbidding any quotation, no matter how limited or appropriate, would severely inhibit proper, lawful scholarly use and place an arbitrary power in the hands of the copyright owner going far beyond the protection provided by law.<sup>40</sup>

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37. *Id.* (internal quotation marks omitted).

38. See, e.g., Dennis S. Karjala, *Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. DAYTON L. REV. 511 (1997); Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239 (1995); McManis, *supra* note 22, at 88-99; 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). See also Jane C. Ginsburg, *Copyright Without Walls? Speculations on Literary Property in the Library of the Future*, 42 REPRESENTATIONS 53, 63 (1993), who points out:

In [a] digital environment . . . contract protection may not be the fragile creature presumed in prior intellectual property preemption decisions. If access to works could be obtained only through the information provider (directly or through an authorized online distributor), and if copying could be electronically tracked or prevented, no "third parties" to the contract would exist. When "we're all connected" no functional difference may exist between a contract and a property right.

39. 953 F.2d 731 (2d Cir. 1991).

40. *Id.* at 741 (quoting with approval from *Salinger v. Random House, Inc.*, 650 F. Supp. 413, 427 (S.D.N.Y. 1986), *rev'd on other grounds*, 811 F.2d 90 (2d Cir. 1987)).

The *Wright* case is a particularly important fair use decision because it was cited with explicit approval by Congress in the legislative history accompanying the one and only amendment that Congress has made to the fair use provision contained in section 107 of the 1976 Copyright Act.<sup>41</sup>

Thus, the effort to portray the *ProCD* case as having settled the question of federal copyright preemption of shrink-wrap licenses is woefully misleading. Indeed, I suspect that a key reason for the software industry's strong support for prompt adoption of Article 2B is not because federal law is so settled on this point, but precisely because it is so unsettled—and so likely to go against the software industry in the long run. Obtaining prompt adoption of Article 2B is probably but a part of a larger political strategy premised on the assumption that, if and when Congress or the federal courts finally do face the preemption issue head on, they might be more reluctant to exercise their preemptive federal power if they are faced with a widely adopted uniform state law.

In short, the barrage of criticism aimed at the McManis motion was a diversion, which unfortunately deflected NCCUSL's attention from the main purpose of the motion—namely, to head off the very real possibility that, without some qualifying language, the mass-market license provision would be used by various segments of the copyright industry to opt out of those parts of the federal copyright bargain that are not to their liking.<sup>42</sup>

Until now, efforts to enforce shrink-wrap licenses have undoubtedly been tempered by a realization that many commentators (and

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41. See H.R. REP. NO. 102-836 (1992), reprinted in 1992 U.S.S.C.A.N. 2553, 2559; cf. also *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 160 (1989) (preempting a state statute that "[i]n essence . . . prohibits the entire public from engaging in a form of reverse engineering of a product in the public domain," stating that "[t]his is clearly one of the rights vested in the federal patent holder, but has never been a part of state protection under the law of unfair competition or trade secrets," and concluding that "the competitive reality of reverse engineering may act as a spur to the inventor, creating an incentive to develop inventions that meet the rigorous requirements of patentability").

42. As I explained in the supporting comments to my ALI motion, the primary purpose of my motion was to preclude mass-market licenses from either 1) prohibiting certain forms of reverse engineering of computer programs that have been held to be a fair use under federal copyright law, or 2) prohibiting any other uses of copyrighted works that would fall within the federal fair use privilege contained in § 107 of the 1976 Copyright Act or within the other "safe haven" provisions enumerated in my motion. See Memo to Joseph A. Mendocino, Jr., *supra* note 31.

While I am particularly concerned about the reverse engineering issue (as virtually every software shrink-wrap license that I have seen contains a flat prohibition against reverse engineering), I am also concerned that mass-market licenses will, in the words of Professor Robert L. Oakley, Washington Affairs Representative of the American Association of Law Libraries, "give creators and publishers far greater rights than Congress conferred upon them in the Copyright Act and, at the same time, limit the ability of libraries and their users to use information in the ways they have come to expect." Letter from Professor Oakley to Professor Raymond Nimmer, reporter, U.C.C. Article 2B Drafting Committee (March 27, 1997).

perhaps courts) would agree with L. Ray Patterson and Stanley W. Lindberg that shrink-wrap licenses

are almost surely against public policy as unilateral attempts to override public law with private law in an adhesion contract. One can be sure that to the extent the provisions of such licenses preclude the fair use of the work, they have no legal effect, although their *in terrorem* effect may be substantial.<sup>43</sup>

Once Article 2B establishes that mass-market licenses are indeed enforceable under state law, however, one may expect the *in terrorem* uses of shrink-wrap licenses to increase dramatically. To get some idea of the kind of contractual term that might appear in books newly equipped with snaps, for example, one need only look closely at the fine print on the page in most books where the copyright notice is typically printed. There, one will discover that onerous contract terms are already printed in books, even if no one currently pays any attention to them.<sup>44</sup> All that is missing from books is the snap—and a law saying that the snap creates an enforceable contract.

With the adoption of Article 2B, however, the copyright industry will have won half the battle. The enforceability of shrink-wrap licenses will clearly be established as a matter of state law, and the political stakes involved in any subsequent federal preemption of state law will have been raised substantially.

Why? Because, as alluded to above, under Article 2B without the McManis motion, the burden of reconstructing the federal copyright bargain out of the havoc that Article 2B creates will have been shifted to copyright users. And these users will, in many cases, simply be unable to afford the costly litigation necessary to invoke the various legal doctrines that the Article 2B reporter argued at the ALI annual meeting would be adequate to address the concerns my motion raised.<sup>45</sup> In all probability, many copyright users will do what any rational actor would do in the face of superior legal fire power—namely, cave in and pay.

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43. PATTERSON & LINDBERG, *supra* note 4, at 220.

44. A random selection of two books from the author's own bookshelves produced the following fine print. The first legend, standard in most books, is as follows:

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information and retrieval system, without permission in writing from the publisher.

The second legend is more nuanced (it appears in an intellectual property law book, after all):

Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by BNA Books for libraries and other users registered with the Copyright Clearance Center (CCC) Transactional Reporting Service, provided that \$1.00 per page is paid directly to CCC, 222 Rosewood Dr., Danvers, MA 01923.

45. See *ALI Wraps Up Product Liability Project, New UCC Article on Licenses Makes Debut*, 65 U.S.L.W. 2777, 2779 (1997) (quoting Professor Nimmer's reference to "common law fair use, copyright preemption, copyright misuse, unconscionability, antitrust, and general preemption").

After a decade or so of litigation, of course, federal courts will eventually sort the matter out (if Congress itself does not act sooner), and whittle the mass-market license provision back to size. In the meantime, however, many copyright owners will get rich, while many copyright users will get sued—not for copyright infringement, mind you, but for breach of contract—and the consuming public will ultimately wind up footing the bill for this caper. (Kind of reminds you of the savings and loan fiasco, doesn't it?)

In short, an unamended Article 2B greatly strengthens the hand of copyright owners, and does nothing at all to ensure that they will not victimize users of copyrighted works by overzealous employment of this new contractual device. While the proponents of the mass-market licensing provision argue that doctrines such as copyright misuse, unconscionability, antitrust, and general preemption law will be sufficient to prevent any attempted end runs around the federal copyright bargain,<sup>46</sup> it is interesting to note that one member of the copyright industry has found a way to avoid having to rely on any of these doctrines. Specifically included in Article 2B is a provision that will effectively eliminate the possibility that one member of the copyright industry (i.e., sound recording companies) might use shrink-wrap licenses to victimize another member of the industry (i.e., broadcasters).

Section 2B-102(31)(B) carefully excepts from the definition of mass-market transactions "a contract for public performance or public display of a copyrighted work." To understand the significance of this opaque provision, a bit of copyright history is necessary. For years, the sound recording industry has unsuccessfully lobbied Congress to create an exclusive public performance right for sound recordings. Under existing federal copyright law, only owners of copyright in the underlying musical or literary work are entitled to royalties for public performances of sound recordings.

Were the federal public performance right extended to sound recordings, the broadcast industry would have to pay two royalties on each public performance of a sound recording rather than one, which is exactly why the broadcast industry opposes creating a public performance right in sound recordings. Were the mass-market license provisions of Article 2B applicable to shrink-wrap licenses on tapes and CDs, however, the sound recording industry would not need a federal public performance right, as it could unilaterally create such a right in shrink-wrap licenses and impose it on the broadcast industry as a matter of state contract law. Thus, while the copyright industry as a whole is quite willing (and indeed lobbying furiously) to impose such contracts on the

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46. *See id.*

American consuming public, the broadcast industry has quietly ensured that this little joke will never be played on it by the recording industry.

For the ALI and NCCUSL to align themselves so completely with the interests of the copyright industry, while leaving copyright users to “twist slowly in the wind,” hardly seems to achieve a desirable neutrality in the law of mass-market licensing. Indeed, on this particular issue, it could be argued that Article 2B should *not* be neutral. Having assured copyright owners and other licensors of information that shrink-wrap licenses and click-here contracts will indeed be enforceable as a matter of state law, the ALI-NCCUSL Drafting Committee should, if anything, bend over backwards to ensure that no member of the copyright industry will even attempt to use mass-market licenses to privatize American copyright law.

Otherwise, the next time you go to your local megabookstore, or for that matter, your friendly neighborhood public library, you may discover that all the new books come equipped with snaps—and contain some nasty legal surprises inside.

#### ADDENDUM

Following the April 1998 Berkeley Article 2B Conference, momentum in the Article 2B debate shifted rather dramatically. This was due in no small measure to the contributions made by the Berkeley Conference itself.

Even before the Berkeley Conference, the Council of the American Law Institute (ALI) had appointed an ad hoc committee on Article 2B, and the Director of the ALI, Geoffrey Hazard, wrote a letter to Gene N. Lebrun, President of the National Conference of Commissioners on Uniform State Laws (NCCUSL), and Charles Alan Wright, President of the ALI, announcing that the text of Article 2B to be presented for discussion at the May ALI meeting would not be presented for approval. Rather, the letter indicated, the text would be presented to the ALI Council for approval at its October or December meeting, with final approval by the ALI membership deferred until May 1999.<sup>47</sup> In that letter, Hazard expressed concern that there “is still an insufficient explication of the relationship between the provisions of 2B and federal law, particularly copyright and patent law.”<sup>48</sup> Hazard noted that “[t]he copyright issue was identified in the ‘McManis Motion’ presented at last year’s ALI Annual Meeting,” but went on to indicate that “the problem appears to be more subtle and of wider scope, as indicated by Steve

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47. See Letter from Geoffrey C. Hazard, Jr., to Gene N. Lebrun and Charles Alan Wright (March 26, 1998) (visited Oct. 9, 1998) <<http://www.softwareindustry.org/issues/guide/docs/ghmar98.html>>.

48. *Id.*

Chow and David Rice (members of the Article 2B Drafting Committee) with respect to federal law and Harvey Perlman and Justice [Ellen] Peters (both members of the ALI ad hoc committee on Article 2B) with regard to state law.”<sup>49</sup>

At the May 1998 meeting of the Article 2B Drafting Committee in St. Louis, the author unsuccessfully urged the Drafting Committee to consider adopting, as an alternative to the 1997 ALI McManis motion, a version of the Reichman/Franklin “public interest unconscionability” proposal that had recently been presented at the Berkeley Conference.<sup>50</sup> Later that month, the ALI, at its 1998 annual meeting in Washington, D.C., narrowly rejected a motion made by the author that would have declared that the current draft of U.C.C. Article 2B had not reached an acceptable balance in its provisions concerning mass-market licenses (§ 2B-208) and the relationship between Article 2B and federal law (§ 2B-105), and would have urged the Drafting Committee to consider a variety of proposals discussed at the Berkeley Conference, including the Reichman/Franklin proposal.

However, at the July 24-31, 1998, annual meeting of NCCUSL in Cleveland, Ohio, NCCUSL adopted by a 96 to 64 vote the following sense-of-the-house motion, which was made by Commissioner Harvey Perlman (who also happens to be on the ALI Council and its ad hoc committee on Article 2B, and who had earlier attended the Berkeley Article 2B Conference):

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49. *Id.*

50. The version of the Reichman/Franklin proposal presented to the Drafting Committee would amend Article 2B by adding the following section 2B-110A:

Section 2B-110A. Public Interest Unconscionability.

(a) As a matter of law, all mass-market contracts, access contracts, and contracts imposing restrictions on end uses of information goods must be made:

(1) on fair and equitable terms and conditions;

(2) with due regard for the public interest in education, science, research, technological development; and

(3) with due regard for the preservation of competition.

(b) Affirmatively negotiated terms falling within (a) shall enjoy a presumption of validity; however, this presumption may be rebutted whenever the cumulative harm to the public interest from use, including repeated use, of the term or terms in question seems likely to outweigh the private and public benefits flowing from the specific transaction.

(c) For non-negotiated terms falling within (a), the licensor bears the burden of establishing that the private benefits in question should justifiably outweigh the actual or potential social or anti-competitive harm demonstrated by the complainant.

(d) Affirmatively negotiated terms are defined as all terms arising from a contract in which both parties actively proposed different terms and merged the draft terms to arrive at a mutually satisfactory contract incorporating terms proposed by both parties. All other terms are considered non-negotiated terms.

(e) In the case of invalidation of a term under this provision, the court may refuse to enforce the contract, or it may enforce the remainder of the contract without the invalidated clause, or it may so limit the application of any invalidated clause as to avoid any anti-social or anti-competitive result.



### Section 2B-110 Impermissible Contract or Term

(a) If a court as a matter of law finds the contract or any term of the contract to have been unconscionable or contrary to public policies relating to innovation, competition, and free expression at the time it was made, the court may refuse to enforce the contract, or it may enforce the remainder of the contract without the impermissible term, or it may so limit the application of any impermissible term as to avoid any unconscionable or otherwise impermissible result.

(b) When it is claimed or appears to the court that the contract or any term thereof may be unconscionable or impermissible under this section the parties shall be afforded a reasonable opportunity to present evidence as to the contract's or term's commercial setting, purpose and effect and the extent to which the contract or term resulted from the actual informed affirmative negotiations of the parties to aid the court in making the determination.

The Perlman motion is essentially an improved version of the original Reichman/Franklin proposal discussed at the Berkeley Conference.

The debate over Article 2B, however, is far from over. Immediately following the NCCUSL annual meeting, the chair and reporter for the Article 2B Drafting Committee circulated their response to the NCCUSL sense-of-the-house motion. In lieu of the wording of the Perlman motion, the chair and reporter proposed that section 2B-105 be amended by adding the following language in a new part (b):

(b) A contract term that violates a fundamental public policy is unenforceable to the extent that the term is invalid under that policy.

This formulation, to say the least, obviously takes the teeth out of the Perlman motion. In accompanying notes, the reporter noted that the NCCUSL sense-of-the-house motion gave the Drafting Committee flexibility to determine where and how the NCCUSL motion should be expressed.

Meanwhile, on September 10, 1998, the presidents and CEOs of the Motion Picture Association of America, the National Association of Broadcasters, the National Cable Television Association, the Recording Industry Association of America, the Newspaper Association of America, and the Magazine Publishers of America, jointly wrote a letter to the Chair of the Article 2B Drafting Committee and the Director of the ALI, stating their belief that "the current draft is fatally flawed in its fundamental premise that all transactions in 'information' may be

governed by a single set of rules,” and respectfully urging NCCUSL and ALI to table the Article 2B project.<sup>51</sup>

As this addendum goes to press, the author is submitting yet another proposed amendment to the Article 2B Drafting Committee, to be considered at its November 1998 meeting, which recommends that the Drafting Committee adopt the specific language of the Perlman motion and reject the alternative proposal of the chair and reporter as not being responsive to the NCCUSL sense-of-the-house motion.<sup>52</sup> Thus, the exact wording of the text of Article 2B, to say nothing of its ultimate fate, remains uncertain.

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51. See Letter from Jack Valenti, Eddie Fritts, Decker Anstrom, Hilary Rosen, John Sturm, and Don Kummerfield to Carlyle Ring, Jr. and Geoffrey Hazard, Jr., (Sept. 10, 1998) (on file with author).

52. This recommendation is posted at <<http://www.2BGuide.com/docs/cm998.html>>.