

May 30, 2000

The Honorable Thomas V. Mike Miller
President, Maryland Senate
and
The Honorable Caspar R. Taylor, Jr.
Speaker, Maryland House of Delegates
Maryland General Assembly
State House
Annapolis, Maryland 21401-1991

Dear President Miller and Speaker Taylor:

We are professors of intellectual property law who have had an opportunity to review your April 6, 2000 letter to Dr. William Brody responding to the March 29, 2000 letters written by Dr. Brody and Dr. Knapp concerning the Uniform Computer Information Transactions Act (UCITA). While your letter generally makes technically accurate statements, in abstract terms, about the state of the law before and after adoption of UCITA, it does not directly address the urgent practical issues raised by the university and library communities during the Maryland General Assembly's consideration of UCITA. We believe that the views expressed by the university and library communities were thoughtful and moderate expressions of a conviction that dramatic changes in the publishing industry, combined with developments such as UCITA, threaten the historic balance struck in copyright law between the interests of authors and those of the public. These views appear well justified in light of the fact that a significant erosion of user rights is occurring under intellectual property and contract law, as we explain more fully below.

Until very recently, federal copyright law and state contract law co-existed in relative harmony. Effectively, only copyright law governed works generally distributed to the public, while works with limited distribution could receive both copyright and contract protection. For example, books sold to the public were not subject to any contract restrictions, and the purchasers of the books were free to resell them under copyright's first sale doctrine or to copy from them to the extent permitted by copyright's fair use doctrine. By contrast, a company like Dun & Bradstreet distributed its credit reports to business customers subject to a license agreement prohibiting these businesses from redistributing the reports or their contents.

In other words, when copyrighted works were distributed to the mass market, the copies were sold, not licensed, and the terms of use after sale were governed exclusively by the federal copyright law. More recently, however, software companies began distributing their products to the general public subject to shrinkwrap licenses (or their on-line equivalent). This practice then spread to other types of digital content, such as databases and (now) e-books. These shrink-wrap or click-on licenses typically are more restrictive than copyright law. For example, while the Copyright Act permits reproductions for a variety of library and archival purposes, see 17 USC Section 108, these licenses often prohibit all reproductions. More generally, such licenses -- if they are enforceable -- may effectively bar "fair use" of works by purchasers.

When vendors first began using shrink-wrap licenses, courts treated them with great skepticism. Courts questioned whether the purchasers had really agreed to the license terms, and whether there had been the "meeting of the minds" that makes an agreement legally binding. Since the mid-90's, however, courts have become more accepting of shrink-wrap licenses.

The university and library communities have viewed with alarm these combined trends: greater use of shrink-wrap licenses by publishers, and greater enforcement of the shrink-wrap licenses by the courts. We share their concern that these combined trends will lead to the private law of contract replacing the public law of copyright, particularly as more works are distributed in digital form. UCITA hastens this process by codifying the recent decisions enforcing shrink-wrap licenses.

To be sure, the Copyright Act or the U.S. Constitution may still preempt some of these license terms. Unfortunately, the case law in this area is inconsistent and undeveloped. For example, within the last few weeks, a federal court in New York found that federal law did not preempt a license term prohibiting the copying of public domain court decisions, while a federal court in California found that federal law did preempt a license term prohibiting the copying of uncopyrightable concert information.

We believe that when this issue finally reaches the Supreme Court, the Court will conclude that federal law indeed does preempt shrink-wrap terms that interfere with fair use or override other statutory limitations on copyright protection. However, a decade may pass before the issue reaches the Supreme Court. In the meantime, consumers', universities', and libraries' traditional use practices are at risk. As originally drafted (and as enacted in Maryland) UCITA further aggravates the problem by ensuring that shrink-wrap license terms at odds with the copyright law will be enforced unless the defendant is able to prove that the term is inconsistent with a "fundamental public policy" -- whatever that may be.

Given that for 200 years American copyright law has done an excellent job of balancing the rights of authors and users; that copyright applies fully to works in digital format, including computer programs and works on the Internet; that the

copyright law recently was amended to provide additional protection to authors in the digital environment; that in the early 1990's, prior to the widespread use of shrink-wrap licenses and their enforcement by courts, the copyright industries in the United States flourished; and that shrink-wrap licenses almost always deprive users of privileges they enjoy under the copyright law, the position of the library and university communities during the UCITA debate in Maryland was entirely reasonable. They were correct that over the past five years, user privileges have eroded, and that UCITA will make those privileges erode further and faster. At the same time, the amendments they proposed to preserve the privileges of universities and libraries were eminently measured and responsible.

Under the federal copyright law, a professor who buys a book (or borrows a copy from the library) can photocopy a small part of it for classroom use. Under UCITA, the same professor could be barred, by the terms of a click-on license, from making the same use of equivalent text from an e-book. Other terms common in such licenses also have onerous, implications for educators. As the recent controversy between Microsoft and Slashdot.org demonstrates, for example, software vendors often take the position that under "end user license agreements," purchasers are contractually prohibited from offering any public criticism of their products. Such prohibitions presumably would apply to the remarks of a computer science professor in a classroom with the same force that they do to opinions shared by a software user via the Internet.

As your letter pointed out, the Maryland General Assembly did adopt a specific provision concerning federal copyright law, Section 105(A)(2), but unfortunately this provision affords little meaningful relief. The provision states that "a contract term is unenforceable to the extent that it would vary a statute, rule, regulation, or procedure that may not be varied by agreement under the federal copyright law...." We note, however, that the general presumption under UCITA is that all such terms are enforceable, and that given the wording to Section 105(A)(2) this presumption will be especially difficult to overcome. The federal copyright law does not specify with particularity which of its terms may and may not be varied by contract; those decisions are made on a case-to-case basis by federal courts. Accordingly, Section 105(A)(2) would have no effect in real-world situations like those described in the preceding paragraph or in others like them, at least in the short term.

State contract law should complement federal copyright, rather than displace it. Educators and consumers in every state have a stake in preserving the balance that has characterized copyright since its beginnings, and states should be sensitive to the risk that well-intentioned legislation may have the effect of destabilizing that balance. In enacting new rules for contracts in the Internet environment, they can protect their citizens by accommodating fundamental copyright policies, even when no federal court has yet decreed that they must do so. It would have been entirely appropriate for the Maryland General Assembly to decide that when libraries and universities obtain broadly distributed materials, the terms of use should be governed by the federal copyright law and not by contract

terms imposed by a publisher. This is what the libraries and universities asked the General Assembly to do while it was considering UCITA. We regret that this did not occur.

Sincerely,

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CC:

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The Honorable Arthur Dorman, Vice Chairman

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