DIGITAL COMMERCE COALITION

August 30, 2000

Jesse Feder
Office of Policy and International Affairs
U.S. Copyright Office
Copyright GC/I&R
P.O. Box 70400
Southwest Station
Washington, D.C. 22024

Jeffrey E.M. Joyner
Senior Counsel
Office of Chief Counsel
National Telecommunications and Information Administration
Room 4713
U.S. Department of Commerce
14th Street and Constitution Ave., N.W.
Washington, DC 20230

Re: DCC Reply Comments Relating to the Joint Study by the Copyright Office and NTIA on Sections 109 and 117 of the Copyright Act

Dear Messrs. Feder and Joyner:

Pursuant to the *Federal Register* notice of June 5, 2000 entitled "Report to Congress Pursuant to Section 104 of the Digital Millennium Copyright Act," the Digital Commerce Coalition ("DCC") submits the following comments with the Copyright Office and the National Telecommunications and Information Administration ("NTIA"). This response is directed particularly to the comments filed on August 4th by the Digital Future Coalition ("DFC"); jointly by the American Library Association, the American Association of Law Libraries, the Association of Research Libraries, the Medical Library Association, and the Special Libraries Association (the "Libraries"); and Patrice Lyons.

Digital Commerce Coalition

The Digital Commerce Coalition ("DCC")[1] was formed in March 2000 by business entities whose primary focus is to establish workable rules for transactions involving the production, provision and use of computer information – digital information and software products and services. DCC members include companies and trade associations representing the leading U.S. producers of online information and Internet services, computer software, and computer hardware. Together we represent many of the firms that have led the way to the creation of new jobs and new economic opportunities that are at the heart of the new electronic commerce.

Our common goal is to facilitate the growth of electronic commerce. We believe that the enactment of the Uniform Computer Information Transactions Act ("UCITA") in every state best advances that goal. UCITA is a well-considered statute that balances the interests of all parties in forming workable contracts and licenses for computer information. By adapting and modernizing traditional tenets of U.S. commercial law for the digital age, UCITA will bring uniformity, certainty and clarity to electronic commerce across the 50 states.

General Observations

As a general matter, DCC feels it important to emphasize the traditional and necessary distinctions under U.S. law between the federal system of copyright protection and the state role in determining agreements among private parties, including contracts and licenses. For over 50 years, the Uniform Commercial Code ("UCC") has governed the relationships between sellers or lessors of hard goods – on the one hand – and buyers or lessees of those goods – on the other – including in many instances hard copies of informational products and services. The various Articles of the UCC have worked well in fostering commerce across the various states, which have in turn adopted the Articles largely in a uniform manner.

UCITA is a new model commercial law developed and approved by the same body that wrote the UCC, the National Conference of Commissioners on Uniform State Laws ("NCCUSL"). As with the Uniform Commercial Code, UCITA has been thoroughly debated and carefully crafted over a multi-year process and is intended to help facilitate the new electronic commerce. UCITA is intentionally broad in scope. The intent is to cover all materials and information that may be the subject of electronic commerce. Thus, the Act covers "computer information," and covers transaction for software, electronic information – including copyrighted works – and internet access. As has been traditionally the case with uniform laws in this area, UCITA sets rules governing agreements between private parties in the licensing of computer information. It does not create or alter the property interests that persons may enjoy in

[1] DCC members include: America Online, inc.; American Electronics Association; Adobe Systems; Autodesk, Inc.; Business Software Alliance; Intel; Information Technology Association of America; Lotus/IBM; Microsoft; National Association of Securities Dealers; Novell; Reed Elsevier Inc.; SilverPlatter, Inc.; Software & Information Industry Association; and Symantec.

respect to these products. Those property interests are determined by relevant state and federal laws, including the federal Copyright Act. This careful balance is one upheld by the courts as necessary to the effective and efficient provision and use of information,[2] and one that both the federal and state governments must strive to maintain.

In this context, DCC is concerned that the comments submitted by DFC, the Libraries and Ms. Lyons as a part of this proceeding go to issues far beyond the scope of the study mandated by Congress. In so doing, they confuse the distinctions between federal copyright law and state contract and licensing statutes. Given the importance of licensing to the information industries and their customers, as well as their reliance upon contracts for flexibility and product variety, this concern is of no small moment.

The original study proposal adopted by the House Commerce Committee in 1998 as an amendment to the *Digital Millennium Copyright Act* ("DMCA") would have required a sweeping review of the relationship between copyright law and electronic commerce generally. However, that proposal was altered significantly before passage of DMCA by the full House later that year. As finally enacted, the scope of the study was limited to apply only to sections 109 and 117 of the Copyright Act. Congress neither desired nor mandated that other issues be studied.

Section 104 of DMCA requires the Register of Copyrights and the Assistant Secretary for Communications and Information of the Department of Commerce to jointly evaluate solely:

> (1) the effects of the amendments made by this title and the development of electronic commerce and associated technology on the operation of sections 109 and 117 of title 17, United States Code, and
>
> (2) the relationship between existing and emerging technology and the operation of sections 109 and 117 of title 17, United States Code.

Despite the fact that the ongoing study is clearly limited to this two-pronged inquiry involving federal copyright protections – and limited exceptions thereto – DFC, the Libraries and Ms. Lyons raise issues and make recommendations related to section 301 of the Copyright Act, as well as comments directed at UCITA and the general licensing practices of computer information providers. Again, there is no mandate from Congress for the study to become a boundless discussion on or inquiry into the licensing of copyrighted software and information products and services.

The comments submitted by the three commentators mentioned above clearly do not fall within the scope of the section 104 study, and DCC maintains that this is not the proper venue in which to raise these comments. For this reason, DCC respectfully requests that the Copyright Office and NTIA disregard these comments.

---

[2] See: *ProCD, Inc. v. Zeidenberg, 86 F.3d 1447 (7th Cir. 1996)*, rev'g 90 F. Supp. 640 (W.D. Wis.)

Statements Regarding Validity of Licensing Agreements and UCITA

Both DFC and the Libraries request that the study recommend amendment to 17 U.S.C. 301 that would interfere with states' rights to govern agreements between private parties. It is a long accepted principle of American jurisprudence that parties should be free to form contracts as they see fit. Provided such contracts are not unconscionable, or illegal, UCITA – consistent with long established practice and jurisprudence – sets up rules as to when a contract is formed and lays out the respective parties rights and obligations.

With this in mind, we believe that the requests made in the submissions are based on anecdotal evidence and unattributed terms from contracts presumably negotiated between licensors and licensees. More disturbing, the requests rest on a false presumption and a mischaracterization of UCITA.

UCITA is a new, uniform state commercial code developed over almost a decade and approved by the same body – the National Conference of Commissioners on Uniform State Laws ("NCCUSL") – that wrote the Uniform Commercial Code. UCC Article 2 contains uniform contract rules for sales of goods. It has been the only uniform body of state contract law for over 50 years. NCCUSL wrote UCC Article 2 to accommodate the shift from an agrarian economy to a manufactured goods economy, since the contract laws written for the former did not work for the latter.

NCCUSL wrote UCITA for the same reason – the economy has shifted from a manufactured goods economy to an information economy. The existing legal infrastructure provided by UCC Article 2, which was written for goods, does not work well in facilitating electronic commerce; therefore, NCCUSL drafted and approved UCITA as a new model law for the states to adopt.

UCITA is intended to help facilitate the new electronic commerce that is dependent on licensing of computer information – including software, electronic information and internet access. As has been traditionally the case under U.S. law, UCITA is designed to complement the provisions of federal law – in this instance generally the copyright, patent and trademark laws.

That contract law and intellectual property laws can peacefully co-exist has long been the case.[3] Although the availability of computer information and its importance is increasing, there is no need for changes in the Copyright Act of the kind proposed by the DFC and the Libraries. There is, however, a need for a uniform contract rules that apply to information. UCITA meets that need.

DFC's comments would lead an uninformed reader to the conclusion that UCITA ignores the supremacy of federal law.[4] The Libraries' comments would lead one to a similar

---

[3] *See e.g.*: Raymond Nimmer, *Breaking Barriers: The Relation Between Contract and Intellectual Property Law,* 13 BERKLEY TECH. L. J. 827 (1998) (explaining the long standing symbiotic relationship between contract and property law).

conclusion.[5] To set the record straight, UCITA does contain specific reference to the supremacy of federal law and does so in the context appropriate to a state-created statute governing contracts and licenses. Section 105 of UCITA reads as follows:

> (a) A provision of this [Act] which is preempted by federal law is unenforceable to the extent of the preemption.
>
> (b) If a term of a contract violates a fundamental public policy, the court may refuse to enforce the contract, enforce the remainder of the contract without the impermissible term, or limit the application of the impermissible term so as to avoid a 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.[6]

The Reporter's Notes accompanying this section – similar to congressional legislative history – make clear that "fair use" is an important part of the considerations a court should weigh in determining the validity of a contract:

> The offsetting public policies most likely to apply to transactions within this Act are those relating to innovation, competition, fair comment and fair use. Innovation policy recognizes the need for a balance between protecting property interests in information to encourage its creation and the importance of a rich public domain upon which most innovation ultimately depends. Competition policy prevents unreasonable restraints on publicly available information in order to protect competition. Rights of free expression may include the right of persons to comment, whether positively or negatively, on the character or quality of information in the marketplace. Free expression and the public interest in supporting public domain use of published information also underlie fair use as a restraint on information property rights. Fair use doctrine is established by Congress in

---

[4] ". . . we hope that the report will recommend new legislation, perhaps in the form of amendments to 17 U.S.C. Sec. 301, that would provide a clear statement as to the supremacy of federal law providing for consumer privileges under copyright over state contract rules which might be employed to enforce overriding terms in "shrink-wrap" and "click-through" licenses." *Comments of the Digital Future Coalition*, p. 3.

[5] "However, as the debate over the proposed Uniform Computer Information Transactions Act ("UCITA') has demonstrated, unless an express federal digital policy preempts state laws, content owners will continue to turn to local laws and restrictive licensing agreements as a way of forcing members of the public to waive the very federal rights that Congress reserved for the public – including those rights that flow from the first sale doctrine on which so many library practices depend. *Comments of the Library Associations before the Library of Congress, the United States Copyright Office and the Department of Commerce, National Telecommunications and Information Administration, Inquiry Regarding Sections 109 and 117) Docket No. 000522150-0150-01*, p. 25.

[6] *See*: Draft Approved at Annual Conference, July 23-30, 1999

> the Copyright Act. Its application and the policy of fair use is one for consideration and determination there. However, to the extent that Congress has established policies on fair use, those can taken into consideration under this section.[7]

The Reporter's Notes also make specific reference to 17 U.S.C. 1201(f) and (j), those provisions of DMCA that govern the limited circumstances under which reverse engineering is permissible where it is needed to obtain interoperability of computer programs.[8]

In short, UCITA does not say *whether* a contract can be made under federal law, but *how* it may be made *if* it can be made. Subsection 105(b) in particular emphasizes that fundamental public polices regarding fair use, reverse engineering, free speech may not be blindly trumped by contract: courts are directed to weigh all the competing polices, including freedom to contract.

While these UCITA provisions may not meet the over zealous demands of DFC and the Libraries for new statutory creation of rights for users of computer information, it is clear that this state-based law properly defers to the supremacy of federal law on issues involving fundamental public policies – including the applicability of the Copyright Act's fair use exceptions and the latest provisions of DMCA. To do otherwise would have risked disturbing, or even destroying, the delicate but deliberate balance that U.S. law has always maintained between the federal system of copyright protection and the state role in determining agreements among private parties, including contracts and licenses.

Ms. Lyon's comments regarding UCITA likewise demonstrate a misunderstanding of the relationship of copyright law and state contract law. For example, she questions whether the UCITA definition of copy includes a digital fixation and how that relates to the Copyright Act. The answers are simple and already explained in the Reporter's Notes. The UCITA definition does include digital fixations and it does not relate to the Copyright Act:

> "Copy." This term refers to the medium containing the information. The medium can be tangible or electronic. The time when information is fixed on the medium can be temporary if this fulfills the required performance. **The copyright law question of when a copy occurs within computer memory or in a transient image does not relate to contract law issues and is not dealt with in this Act**. *Stenograph v. Bossard*, 46 U.S.P.Q.2d 1936 (D.C. Cir. 1998); *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).[9]

State contract law has its own need and use for the concept of "copy," e.g., a licensor has a duty to tender a copy and licensee has a duty to pay upon tender. Unless there is a definition of copy commensurate with the purposes of contract law, contract law fails.

---

[7] *See*: March 2000 Comments § 105, cmt. 3

[8] *Ibid*.

[9] *See*: March 2000 Comments, § 102, cmt. 17, emphasis added.

Ms. Lyon's comments regarding the UCITA definition of "computer program" are similarly resolved. The first sentence of the definition used in UCITA is exactly the same as that in the Copyright Act, and therefore should not pose a problem. The second sentence in the definition is intended to make a state law distinction important for purposes of contract law. Again, the Copyright Act is not affected and the Reporter's Notes explains this point clearly:

> "Computer program." The first sentence parallels copyright law. 17 U.S.C. § 101 (1998). The second sentence distinguishes between computer programs as operating instructions communicated to a computer and "informational content" communicated to human beings. . . . **The definition pertains solely to contract law issues. It does not relate to the copyright law issue of distinguishing between a process and copyrightable expression**. . . . .In this Act, the distinction relates to contract law issues such as liability risk and performance obligations.[10]

Rather than treat each additional comment offered by Ms. Lyons, we summarize by noting again that intellectual property laws and contract laws serve different but vital purposes. State contract law must bow to federal law and UCITA does that. Nevertheless, UCITA fulfills a vital purpose in facilitating electronic commerce, and that purpose should not be confused with the one accomplished by intellectual property laws.

Conclusion

The Digital Commerce Coalition has as its primary purpose and goal the enactment of UCITA in the 50 states in order to facilitate effective electronic commerce. Nevertheless, DCC and its members are also concerned that other activities, including this current study at the federal level, not go forward without a clear understanding of the nature of UCITA and its intended effects. Unfortunately, comments submitted by DFC, the Libraries and Ms. Lyons in the course of this study are far outside the scope of the congressional mandate given to the Copyright Office and NTIA. For that reason alone, DCC would urge that they be ignored.

Equally important, DCC feels it necessary to correct the mischaracterization and misunderstanding of UCITA, particularly its provisions governing the supremacy of federal law – including the Copyright Act. UCITA fully anticipates and preserves the traditional and necessary distinctions under U.S. law between the federal system of copyright protection and the

[10] *Ibid*. at cmt. 10, emphasis added.

states' role in determining agreements among private parties, including contracts and licenses. It does nothing to undermine the Copyright Act or the rights and exceptions to rights established thereunder. DCC urges the Copyright Office and NTIA to give similar cognizance to the importance of maintaining that delicate balance at the federal level, as they prepare the mandated report to Congress.

Respectfully submitted,

Daniel C. Duncan
Executive Director
Digital Commerce Coalition