

**Licensing Information in the Global Information Market:
Freedom of Contract Meets Public Policy**

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Introduction

Expectations run high that a global marketplace will emerge in which electronic contracts will be made in cyberspace to provide electronic information to customers via digital networks, all of which will be paid for with electronic currencies.¹ A necessary precondition of such markets is an international consensus on when an exchange of electronic messages has formed a contract and how far information providers can go in enforcing contractual terms that brush up against, if not conflict, with public policies such as those embodied in intellectual property law.

While scenarios of electronic agents negotiating contracts in cyberspace may seem like science fiction to some, there is already in existence in the U.S. a model law to permit the making of such contracts.² Proponents of this model law, which is known as Article 2B of the Uniform Commercial Code (UCC), hope to export it to the international community.³ The broadest aspiration of Article 2B is to promote commerce in the information economy just as Articles 2 and 2A of the UCC have done, at least in the U.S., in promoting commerce in the manufacturing economy.⁴ To accomplish this, Article 2B applies to far more than futuristic electronic contracts. At one time, it would have

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¹ See generally, William J. Clinton & Albert Gore, Jr., A FRAMEWORK FOR GLOBAL ELECTRONIC COMMERCE, (July 1, 1997) [hereinafter Framework]; Lynn Margherio, U.S. Dept. of Commerce, THE EMERGING DIGITAL ECONOMY, (April 1998).

² Uniform Commercial Code article 2B, §§2B-102(a)(21), 2B-111, 2B-204 (Draft, Dec. 1998).

³ The Framework, *supra* note 1, calls for a global uniform commercial framework. Article 2B explicitly answers that call, citing to the Framework in the Preface. See U.C.C. art. 2B Preface (Draft, Aug. 1, 1998).

⁴ The Preface to Article 2B begins with the following epigraph:

“ It is timely now to adapt [the UCC’s] framework to the digital era and to the new information products and services that will increasingly drive Global Electronic Commerce Article 2B can be a strong first step toward a common legal . . . ”

U.C.C. art. 2B Preface (Draft, Aug. 1, 1998) (quoting Letter from CSPP (a coalition of eleven major manufacturing companies)) (Nov. 19, 1997). Article 2 of the U.C.C. has promoted the growth of larger and more national markets for the manufacturing economy. See Fred H. Miller, *The Uniform Commercial Code: Will the Experiment Continue?*, 43 MERCER L. REV. 799, 808 (1992) (noting the U.C.C.’s “substantive excellence” and discussing its success in promoting national uniformity).

regulated all transactions in information.⁵ In its current iteration, it encompasses all “computer information transactions,” which includes computer software, databases, CD-ROM encyclopedias, multimedia products, and interactive computer services.⁶

The paradigmatic transaction of Article 2B is a license,⁷ as contrasted with a sale of copies which has long been the prototypical transaction in the marketplace for printed works. Among other things, Article 2B would validate mass-market licenses such as those typically found under the plastic shrink-wrap of boxed software which inform the reader that loading the enclosed code onto one’s hard-drive constitutes an agreement to terms of the license.⁸

Given the well-known American reverence for the free market, it should not be surprising that the drafters of Article 2B initially sought to limit public policy limitations on contracts to those that were unconscionable.⁹ Unconscionability is a very difficult threshold to meet because it requires that terms be shockingly oppressive, not merely unreasonable, before they will be considered unenforceable.¹⁰ Both academic and industry commentators objected to this aspect of Article 2B, asserting that certain public policies, including some deriving from intellectual property law, should limit enforcement of contractual terms that would undermine these policies.¹¹ Over strenuous objection from a

⁵ See U.C.C. art. 2B, §2B-103 (Draft, Aug. 1, 1998).

⁶ See U.C.C. art. 2B, §2B-103 (Draft, Dec. 1998).

⁷ See Robert W. Gomulkiewicz, *The License is the Product: Comments on the Promise of Article 2B for Software and Information Licensing*, 13 BERKELEY TECH. L.J. 891 (1998) (arguing that Article 2B must affirm licenses in order to prove beneficial).

⁸ U.C.C. art. 2B, §2B-110 (Draft, Dec. 1998).

⁹ According to Raymond Nimmer, the Reporter for the drafting committee, this occurs only when “the competing public interest has sufficient strength and clarity that it precludes the exercise of transactional choice by the parties.” See Raymond T. Nimmer, *Breaking Barriers: The Relation Between Contract and Intellectual Property Law*, 13 BERKELEY TECH. L.J. 827 (1998).

¹⁰ See RESTATEMENT (SECOND) OF CONTRACTS § 208; B.E. Witkin, SUMMARY OF CALIFORNIA LAW (CONTRACTS) §32-34 (9th ed., supp. 1998) (citing the standard under California law). Not only is it a high threshold, the doctrine is only used in rare instances. See Mark A. Lemley, *Beyond Preemption: The Federal Law and Policy of Intellectual Property Licensing*, 87 CALIF. L. REV. 111, n.181 (forthcoming Jan. 1999) (citing *Forsythe v. Banc Boston Mortgage Corp*, 135 F.3d 1069, 1074 (6th Cir. 1997)).

¹¹ The tensions came to a boil at a conference held at the University of California at Berkeley, where a series of academic and industry leaders pointed to the lack of a clear relationship between Article 2B and federal law. Berkeley Center for Law and Technology Conference on *Intellectual Property and Contract Law in the Information Age: The Impact of Article 2B of the Uniform Commercial Code on the Future of Transactions in Information and Electronic Commerce*, April 23-25, 1998 [conference cited hereinafter as “Berkeley Conference”]. Articles published in a dual symposium of the *California Law Review* and the *Berkeley Technology Law Journal* in January 1999 illustrate some of the key commentary regarding the tensions between intellectual property and contract law. For more information on these issues see *the*

majority of the Article 2B drafting committee, the two sponsoring entities for the Article 2B project, namely, the American Law Institute (ALI) and the National Conference of Commissioners on Uniform State Laws (NCCUSL), have insisted that Article 2B needed a public policy limitation provision.¹² Bowing to necessity, the drafting committee has recently added such a provision.¹³

Even with this and other changes made in response to criticisms, Article 2B's future is clouded. One of its two sponsors, ALI, has decided that Article 2B needs further refinement before ALI will consider approving this model law.¹⁴ In addition, major players from the copyright industries, including the Motion Picture Association of America (MPAA), have made clear their intense opposition to Article 2B.¹⁵ While this article cannot hope to cover all of the controversies about Article 2B, it will discuss three principal issues: the enforceability of mass market licenses of information, the scope of Article 2B, and the public policy override controversy.¹⁶

Regardless of the ultimate fate of Article 2B, the relationship between information licensing law and intellectual property and other public policies will be important for the foreseeable future. The growing use of licenses in commerce for information will have profound implications for the global information economy. As the global village shrinks

California Law Review at <<http://clr.berkeley.edu/>> and the *Berkeley Technology Law Journal* at <<http://www.law.berkeley.edu/journals/btj/>>.

¹² NCCUSL and ALI are instrumental in the creation of uniform laws, and oversee the drafting process. NCCUSL is an association of commissions on uniform laws, whose task is to determine which areas of the law would benefit from uniformity, and to write and recommend uniform laws to state legislatures for enactment. See <<http://www.law.upenn.edu/bll/ulc/brochure.htm>> and <<http://www.nccusl.org>>. ALI is an organization designed to reduce the uncertainty and complexity of American law, through systematic and periodic publications of restatements of the law. See <<http://www.ali.org>>.

¹³ The drafting committee voted on this change and several others at the November drafting committee meeting. For a full report on the November meeting, see Carol A. Kunze, *Report on the November 13 – 15 Drafting Committee Meeting*, January 12, 1999, <<http://www.2BGuide.com/nov98rpt.html>>.

¹⁴ See NCCUSL press release, *Uniform Law Commissioners Prepare for Final Consideration of UCC Article 2B*, *American Law Institute Council Defers Final Consideration*, January 9, 1999, <<http://www.2BGuide.com/docs/1999prel.html>>.

¹⁵ MPAA, et al., letter to Gene N. Lebrun, President of NCCUSL, December 7, 1998, [Hereinafter December MPAA Letter] <<http://www.2Bguide.com/docs/1298mpaa.html>> (“... we strenuously object to the current draft and direction of proposed Article 2B and will be forced to actively oppose its enactment.”).

¹⁶ Other controversial issues include consumer warranty issues or licensor's electronic self-help. See e.g., Bureau of Consumer Protection, Bureau of Competition, Policy Planning, Federal Trade Commission, letter to Carlyle Ring, Jr. and Geoffrey Hazard, Jr., October 30, 1998, <<http://www.ftc.gov/be/v980032.htm>>; Cem Kaner, *Comments on Article 2B*, <<http://www.badsoftware.com/kanemcc.htm>>; Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 BERKELEY TECH. L.J. 1089 (1998).

and the World Wide Web becomes the corner store, it becomes increasingly more desirable to have as much international agreement as is achievable. This article hopes to promote consideration of these issues on an international level.

I. Validation of Mass-Market Licenses

When the computer software industry first emerged, software was either provided to customers as an inducement to buy hardware (a variant on giving away a few razor blades to promote sales of razors) or it was individually licensed to customers who often had specially commissioned it.¹⁷ As a mass market in software began to emerge in the 1980's, a number of software developers began commercially distributing their mass-market software in packages containing so-called "shrinkwrap licenses."¹⁸ These documents typically stated that breaking open the plastic packaging or loading the software onto a computer constituted an acceptance of the stated "license" terms.¹⁹ This practice spread through the software industry despite the fact that there were substantial doubts about the enforceability of these licenses, both as a matter of contract law and as a matter of intellectual property policy.

Some caselaw and commentary considered software shrinkwrap licenses to be unenforceable contracts of adhesion, while others opined that without a clear act of assent by the user accepting the terms, shrinkwrap terms had not become part of the contract²⁰ In addition, some cases and commentary regarded shrinkwrap license terms as unenforceable insofar as they conflicted with federal intellectual property policy by purporting to deprive users of privileges intended by the U.S. Congress.²¹ Some also questioned whether state-based shrink-wrap licenses could override federal copyright

¹⁷ Pamela Samuelson, *A Case Study on Computer Programs*, GLOBAL DIMENSIONS OF INTELLECTUAL PROPERTY RIGHTS IN SCIENCE AND TECHNOLOGY 284-285, National Academy Press (Mitchell Wallerstein, Mary Mogege & Roberta Schoen, eds. 1993).

¹⁸ *Id.* See also Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239, 1241 – 1259.

¹⁹ For a discussion of the early uses and practices in licensing, see J. Thomas Warlick, IV, *A Wolf in Sheep's Clothing? Information Licensing and De Facto Copyright Legislation in UCC 2B*, 45 J. COPR. SOC'Y 158, 161-162 (1997).

²⁰ See e.g., *Step-Saver Data Sys., Inc. v. Wyse Technology*, 939 F.2d 91 (3d Cir. 1991); *Arizona Retail Sys., Inc. v. Software Link, Inc.*, 831 F.Supp. 759 (D. Ariz. 1993); L. Ray Paterson & Stanley W. Lindberg, *THE NATURE OF COPYRIGHT – A LAW OF USER'S RIGHTS* 220 (1991).

²¹ See e.g. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255 (5th Cir. 1988). See also Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 BERKELEY TECH. L.J. 93, 102 (1997); Robert P. Merges, *The End of Friction? Property Rights and Contract in the "Newtonian" World of On-Line Commerce*, 12 BERKELEY TECH. L.J. 115, 120-27 (1997).

law's "first sale" principle which provides certain privileges to purchasers of copies of protected works, such as the right to redistribute that copy.²²

One important purpose of Article 2B is to clarify that shrinkwrap and other mass-market licenses of software are enforceable as a matter of state contract law, so long as the user has manifested her assent to terms of the contract.²³ This assent may be shown by using the product after having an opportunity to know of the license terms. The first appellate court decision to accept Article 2B's approach to mass-market licenses was *ProCD v. Zeidenberg*.²⁴ Zeidenberg purchased a CD-ROM containing telephone directory listings. Inside the box was a form indicating that the information on the disk was licensed for home use only. Because Zeidenberg could have gotten a refund if he didn't like the terms, and because of the potential for market failure if the license wasn't enforced, this court decided to enforce the shrinkwrap license and found that Zeidenberg's loading of the software onto a website breached the home-use license term.²⁵

A second issue in *Pro-CD* was whether federal copyright policy forbade enforcement of this contract clause. Only a few years before, the U.S. Supreme Court had ruled that unoriginal compilation of data, such as white pages listings in telephone directories, was unprotectable by copyright law.²⁶ The Supreme Court's decision had seemed to regard such information, once published, as being in public domain and available to be freely appropriated. A mass-market license term prohibiting the redistribution of telephone listing seemed contrary to the Supreme Court's ruling. Hence, Zeidenberg argued that federal copyright law should "preempt" enforcement of a state contract since the state law cannot alter the delicate balance of federal copyright law.²⁷

The appellate court, however, disagreed. Judge Easterbrook, writing for the majority, found no preemption problem once he differentiated between rights that were good against only the person in agreement and rights good against the world. Since there

²² See e.g. David A. Rice, *Digital Information as Property and Product: U.C.C. Article 2B*, 22 U. DAYTON. L. REV. 621, 643 – 646. (1997) (suggesting that Article 2B purposefully confuses sales with licensing, in an effort to overcome the first sale doctrine.)

²³ U.C.C. art. 2B, §2B-111 (Draft, Dec. 1998).

²⁴ 86 F.3d 1447 (7th Cir. 1996).

²⁵ Id. at 1449 – 1452.

²⁶ *Feist Publications v. Rural Telephone Service Co.*, 499 U.S. 340 (1991). *Feist* invoked the American intellectual property tenet that underlying factual information cannot be owned.

²⁷ Preemption is an American legal concept through which federal law preempts contrary state law. For more information on copyright preemption, see 1 NIMMER ON COPYRIGHT §1.01[B].

was an “extra element” of agreement, the state contract claim was not “equivalent” to a copyright claim. Hence, federal policy did not preempt enforcement of this state contract provision.²⁸

The *ProCD* decision has generated controversy, both in its assessment of state contract law and in its preemption analysis.²⁹ Some commentators continue to question whether it is appropriate to enforce shrinkwrap and other mass market licenses for copyrighted works.³⁰ Although other commentators have endorsed the result of *ProCD*, they would have courts distinguish between socially beneficial shrinkwrap license terms and those that reduce competition and retard innovation.³¹ Commentators also differ about the extent to which Easterbrook’s analysis should be understood to foreclose preemption analysis in all contract cases.³²

Some U.S. commentators have suggested that even if shrinkwrap and other mass-market licenses may be enforceable to some extent, it may be necessary to look “Beyond Preemption” to the concept of misuse as a public policy check on abusive licensing practices.³³ The misuse doctrine forbids certain kinds of extensions of one’s rights under intellectual property law. It is similar to the European civil law ‘abuse of right’ doctrine, rendering the right temporarily unenforceable when public policy would otherwise be abused.³⁴ Still other commentators have suggested that courts may eventually recognize a ‘right of fair breach,’ permitting a party to breach contract terms which unreasonably interfere with certain rights.³⁵

²⁸ For more on the extra-element requirement, see 1 NIMMER ON COPYRIGHT §1.01[B] at 1-15.

²⁹ See e.g., David Nimmer, Elliot Brown & Gary N. Frischling *The Metamorphosis of Contract into Expand*, 87 CALIF. L. REV. 17 (forthcoming Jan. 1999); Maureen A. O’Rourke, *Copyright Preemption After the ProCD Case: A Market-based Approach*, 12 BERKELEY TECH. L.J. 53 (1997).

³⁰ See, e.g., Pamela Samuelson, *Does Information Really Have to Be Licensed?*, 41 COMM. ACM 15 (Sept. 1998).

³¹ J.H. Reichman & Jonathan Franklin, *Privately Legislated Intellectual Property Rights: The Limits of Article 2B of the UCC*, presented at the Berkeley Conference, available on-line at <<http://www.vanderbilt.edu/Law/faculty/reichman/art2B.pdf>>.

³² Ray Nimmer agrees with the result in *ProCD*, arguing that preemption will rarely affect contracts. He asserts that statutory preemption only applies to rights against the world, and contract, as inherently between two parties, is not equivalent. See R. Nimmer, *supra* note 9.

³³ Mark Lemley, *Beyond Preemption*, *supra* note 10.

³⁴ See e.g. code del la propriété intellectuelle, art. L. 121-3 and art. L. 122-9.

³⁵ Jane C. Ginsburg, *Copyright Without Walls?: Speculations on Literary Property in the Library of the Future*, 42 REPRESENTATIONS 53, 63-65 (1993).

There is also reason to believe that Article 2B and the *ProCD* ruling may be untenable outside the American context. According to a research report sponsored by the IMPRIMATUR project, it is unclear to what extent European courts would follow *ProCD*'s validation of shrinkwrap licenses.³⁶ In one early case involving commercial entities, a Scottish court gave effect to shrinkwrap terms allowing a right to return software.³⁷ Just across the North Sea, a Dutch court held that a license agreement could not be formed by opening the package of software, even as between commercial entities.³⁸ A related report noted that the *ProCD* analysis was determined by the nature of licensing practices in the American computer industry: "It is highly doubtful, in view of the legislation and the case law, that a European court would have come to the same conclusion in circumstances similar to those of the *ProCD* case."³⁹

II. Controversies Over The Scope of Article 2B

Far more controversial than the validity of software shrinkwrap licenses has been the appropriate scope of Article 2B. From the outset, Article 2B has been concerned with developing licensing rules for the software industry.⁴⁰ As it became clear that other information providers, such as on-line databases, were also using shrinkwrap (or clickwrap) licenses and had concerns that could be addressed in Article 2B, the scope of the Article 2B project expanded. Proposals to extend it further to encompass all transactions in digital information were followed by arguments that in an age of convergence of media and information technologies, Article 2B should not limit itself to regulating digital information transactions.⁴¹ What sense did it make for two different laws to apply if a publisher brought out both a print and an electronic version of the same work? Wasn't there a need for a law to regulate licensing of information more generally?

³⁶ IMPRIMATUR, *Formation and Validity of On-Line Contracts*, Institute for Information Law (1998), pp. 9-12. In both of the cases cited by this report, unlike *ProCD*, the licensee was not a consumer.

³⁷ *Beta v. Adobe*, (1996) F.S.R. 367.

³⁸ *Coss Holland B.V. v. TM Data Nederland B.V.*

³⁹ IMPRIMATUR, *Contracts and Copyright Exemptions*, Institute for Information Law (1998), p. 31.

⁴⁰ Article 2B's origins can be traced back to a 1986 study committee of the American Bar Association, which recommended a uniform law governing software contracts. J. Thomas Warlick, *A Wolf in Sheep's Clothing?*, *supra* note 19, at 161.

⁴¹ See e.g., Reporter's Notes to U.C.C. art. 2B §2B-103 (Draft, April 2, 1996) (discussing whether the Article should cover all transactions in information or be limited to transactions involving information that can be processed automatically, such as digital or other electronic information.)

By 1995, the scope of Article 2B extended to all transactions in information.⁴² Reasoning that the unique properties of intangible information made licensing of this fundamentally different from the goods in the manufacturing economy, proponents of Article 2B wanted to develop a new law that unified all of these information transactions under one umbrella.⁴³ A new law was arguably needed to address the emerging issues of the information age, and the licensing model developed in the software industry was perceived as a way to promote commerce in information more generally.

Not everyone agreed. As industry groups outside of the software and database industries discovered that Article 2B would apply to their licensing practices, many of them sought exclusions on the theory that different assumptions and practices of their industries made it inappropriate to apply Article 2B rules to them.⁴⁴ Trademark, trade dress, and most patent licensors obtained exclusions, as did the financial services industries.⁴⁵ Some publishing and the motion picture industry groups decided initially to work along with the Article 2B project, and made suggestions for amendments to it.⁴⁶ After the motion picture and broadcast industries, in particular, indicated that Article 2B had not gone far enough to address issues of concern to them, the drafters of Article 2B carved them out of the draft so the Article 2B project could move ahead toward final approval.⁴⁷ The American Law Institute also made known its concerns about the breadth of Article 2B's scope.⁴⁸

In November 1998, hoping to forestall opposition to Article 2B by certain copyright industry groups, the drafting committee decided to reduce the Article's scope to "computer information transactions."⁴⁹ The drafters intend for Article 2B to apply to

⁴² J. Thomas Warlick, *A Wolf in Sheep's Clothing?*, *supra* note 19, at 161.

⁴³ See generally, U.C.C. art. 2B Preface (Draft, Aug. 1, 1998).

⁴⁴ See also Roland E. Brandel, John B. Kennedy, Morrison & Foerster, *UCC Article 2B: Is "2B" Shorthand for "Too Broad"?*, November 5, 1997, <<http://www.2bguide.com/docs/mofo3.html>> ("It is far from self-evident that Article 2B's attempt to impose on such diverse contracts and transactions a broad set of unexpected default rules derived from intellectual property licensing would produce a superior body of law or create improved market efficiencies.").

⁴⁵ U.C.C. art. 2B § 2B-104 (2) (Draft, Dec. 1998).

⁴⁶ See e.g., Motion Picture Association of America, February 20, 1997, *Comments on sections 101 through 314 of Uniform Commercial Code - Proposed Article 2B*, <<http://www.2bguide.com/docs/mpaa.pdf>>.

⁴⁷ See Simon Barsky, *Motion Picture Association letter to Carlyle Ring, Jr.*, April 29, 1998, <<http://www.2bguide.com/docs/conn0429.html>> (commenting on the exclusion of the motion picture industry in the April draft, and suggesting changes to the scope).

⁴⁸ Geoffrey C. Hazard, ALI Director, et. al., *July 1998 Draft: Suggested Changes*, October 9, 1998, <<http://www.2bguide.com/docs/gch1098.pdf>>.

⁴⁹ Carlyle Ring, Jr., Chair of the UCC Article 2B Committee, Raymond T. Nimmer, Article 2B Reporter, *Issues List: Article 2B - ALI Council Meeting*, [December 1998].

contracts “whose subject matter is (i) creation, development, support, or maintenance of computer information or (ii) access to, acquisition, transfer, use, license, or distribution of computer information.”⁵⁰

The Motion Picture Association of America (MPAA), in conjunction with five other groups representing broadcast, cable, newspaper and magazine publishing, and recording industries, however, had not asked for a reduction in scope of Article 2B; they wanted the drafters of Article 2B to table (i.e., kill off) the project.⁵¹ They denounced Article 2B’s underlying assumption that one licensing law would work for all transactions in information as “fatally flawed in its fundamental premise.”⁵²

MPAA considers the practices of the motion picture industry to be irreconcilably different from the software industry. While the MPAA letter does not directly say so, it is fair to infer from the letter that MPAA and its allies regard Article 2B as “software centric.” Moreover, the letter partly derives from concerns that the dominance of certain software industry groups in the Article 2B process, including most prominently, the Business Software Alliance (BSA),⁵³ has made it nearly impossible for MPAA, et al., to get a fair airing of the issues of concern to them.⁵⁴

MPAA’s concern is symptomatic of a larger issue: can one set of rules reflect a diverse number of industries? As far as the entertainment industries are concerned, the answer is no.⁵⁵ Even though many of its core business activities are now excluded from

⁵⁰ U.C.C. art. 2B, § 2B-102 (8),(9) (Draft, Dec. 1998)

⁵¹ MPAA, RIAA, NAA, NAB, NCTA, MPA, letter to Carlyle Ring and Geoffrey Hazard, September 10, 1998, <<http://www.2Bguide.com/docs/v9-98.pdf>>.

⁵² *Id.*

⁵³ For an overview of the BSA’s position see Business Software Alliance, *Recommended Changes to Article 2B, August 1, 1998 Draft*, October 10, 1998 (discussing the Perlman motion, mass market licenses, warranties, and other issues), <<http://www.2bguide.com/docs/bsa1098.html>>.

⁵⁴ The BSA’s ‘ownership’ of the process might be best illustrated by the example used to clarify the exclusion of the entertainment industry. The Reporter’s Notes to U.C.C. art 2B, §2B-104 (Draft, Dec. 1998) state that the “animated help feature of a word processing program” were still included in the Article’s scope. Microsoft, a core member of the BSA, makes the only word processor (of which we are aware) with an animated help feature. This is not the first time the example in the text indicated players in the drafting process. In a section of the August draft designed to explain the application of the unconscionability doctrine, the Reporter’s Notes opine that “a contract term purporting to prevent the buyer of a publicly distributed magazine from quoting the magazine’s observations about consumer products might be unconscionable.” Consumer’s Union, a prominent consumer organization and critic of Article 2B, publishes a magazine which maintains a no-commercialization policy prohibiting quotation of its reviews in advertisements.

⁵⁵ December MPAA Letter, *supra* note 15. See also The Entertainment Industry, *Article 2B- More Than Software*, §5.1 et seq., November 5, 1996, <<http://www.2bguide.com/docs/eIposition.pdf>>.

Article 2B as well, the motion picture and broadcasting industries continue to be concerned that Article 2B will be applied by analogy. In addition, they object to the application of Article 2B to their DVD, multimedia products, and interactive services. While the notes to the new scope provision insist that “[o]rdinarily, a court should not apply Article 2B by analogy to these excluded transactions,” the MPAA feared that the Reporter’s Notes will be insufficient to “restrict the manner in which a court reasons.”⁵⁶ Despite the drafter’s considerable efforts to sooth Hollywood, this powerful industry will continue to actively oppose its enactment.⁵⁷

The opposition of the motion picture and other major copyright industry groups may signal the death knell of the Article. The key to any uniform law is to be a codification of the traditions within a group of industries. The stalwart opposition of a major industries undermines this tenet.

III. Public Policy Overrides of Contract

The debate over Article 2B is a reflection of a larger struggle between public policy and the freedom of contract. Regardless of the fate of this particular model law, the tensions, and the eventual compromise, illustrated in this debate suggest how this larger debate might play out in other venues. There needs to be an international conversation on the extent to which private contracts, or indeed, technical protection systems, can overrides public policy. Each nation will have to address the fundamental question: how far can private parties contract around public policy?

Some answers have begun to emerge. The European Union, concerned with the competitive significance of ensuring access to interface elements to enable interoperability of programs, made the decompilation privilege non-waivable by contract.⁵⁸ Likewise, a European contract cannot waive the rights to take insubstantial parts of database.⁵⁹

Article 2B takes a different approach. It would presumptively validate contractual overrides of default rules of intellectual property law. Insofar as contractual overrides

⁵⁶ December MPAA Letter, *supra* note 15.

⁵⁷ *Id.*

⁵⁸ Council Directive of 14 May 1991 on the legal protection of computer programs, Official Journal of the European Communities no. L 122 , 17/05/91 p. 42 [European Software Directive], Art. 6, §(1), Art. 9, §(1).

⁵⁹ See Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, Official Journal of the European Communities of 27/3/96 no. L 77 p. 20 [European Database Directive].

occur in respect of mass-market licenses and there is either only one dominant provider or the same basic terms are used in virtually all mass-market licenses in that market, the license term moves beyond a contractual right and takes on the characteristics of a property right. As Professors J.H. Reichman and Jonathan Franklin explained, “when the restored power of the two-party deal in the digital universe is combined with the power to impose non-negotiated terms, it produces contracts (not ‘agreements’) that are roughly equivalent to private legislation that *is* valid against the world.”⁶⁰

The first U.S.-based attempt to insert public policy limitations into the text of Article 2B came from Professor Charles McManis. Professor McManis made a motion at an annual meeting of the ALI during a review of the Article 2B project that would treat any term inconsistent with certain federal copyright provisions, such as fair use, unenforceable. It would have required Article 2B to defer to fair use, archival and library rights, classroom performances, and other public policy limitations built into copyright law.⁶¹ According to McManis, unless public policy limitations are inserted into the proposed law, there could be disastrous consequences – in effect, the shrink-wrapping of American copyright law.⁶²

A number of the drafters disagreed, lobbying against the motion on the basis that McManis’s fears were unwarranted, since federal law and policy would trump contrary state law under the preemption doctrine.⁶³ Despite these efforts, ALI approved the McManis motion in May 1997, though NCCUSL did not. The drafters attempted to resolve the dispute through the addition of a truism: in the August draft: section 2B-105 stated that federal law preempted state law.⁶⁴ While this theoretically responded to the McManis motion, it simply restated the motion in the terms of the motion’s critics.

Unsatisfied by the relatively insubstantial protections afforded by the August draft, Professor Harvey Perlman proposed several changes to section 2B-110, which would extend the unconscionability limitation to include making terms “clearly contrary to public policy” unenforceable.⁶⁵ Professor Perlman would also have the courts consider “the

⁶⁰ J. H. Reichman & Jonathan Franklin, *supra* note 31.

⁶¹ 17 U.S.C. §§107, 108, 110, 117.

⁶² Charles McManis, *The Privatization (or “Shrink-wrapping”) of American Copyright Law*, 87 CALIF. L. REV. 173 (forthcoming Jan. 1999).

⁶³ See e.g. Joel Wolfson, *Contracts and Copyright are Not at War*, 87 CALIF. L. REV. 79 (forthcoming Jan. 1999).

⁶⁴ U.C.C. art. 2B, §2B-105 (Draft, August 1, 1998).

⁶⁵ Harvey Perlman, UCC Commissioner for Nebraska, *Amendment to Article 2B, Uniform Commercial Code, July 3, 1998 (§2B-110. Unconscionable)*, <<http://www.2bguide.com/docs/2B-amend.html>>.

extent to which the contract or term resulted from the actual informed affirmative negotiations of the parties.’⁶⁶

Professor Perlman brought his ideas in the form of a motion before the July 1998 NCCUSL meeting. Again, the drafters voiced their strong opposition, but the commissioners passed the motion by a vote of 90 in favor to 60 opposed. Nonetheless, the motion allowed some leeway for the drafters to propose alternative language. The drafters responded with a proposed § 2B-105(b), which would read: “A contract term that violates a fundamental public policy is unenforceable to the extent that the term is invalid under that policy.” In late September, Professor McManis moved for the drafters to adopt the text of the Perlman motion as originally proposed, and reject the newly proposed language.⁶⁷

With pressure to resolve this issue from many corners, Professor Perlman and the drafters developed a compromise before the November meeting. The carefully reworded section would read:

- b) If a term of a contract violates a fundamental public policy, 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 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 that term.

Despite the compromise, legitimate concerns remain regarding the high standard the proposal seems to require. The use of the term “fundamental” may provide too much deference to the freedom of contract doctrine.⁶⁸ Some critics fear that the phrase “violates a fundamental public policy” combined with “clearly outweighed” may cause courts to enforce contract terms that frustrate public policy objectives.⁶⁹

⁶⁶ *Id.*

⁶⁷ Charles McManis, *Proposed amendment and comment for November 13-15 Article 2B Drafting Committee meeting, September 30, 1998*, <<http://www.2Bguide.com/docs/cm998.html>>.

⁶⁸ The apparent source of the ‘fundamental’ term is the phrase “clearly outweighed” in THE RESTATEMENT (SECOND) OF CONTRACTS SECTION 178 (1981). Under the Restatement, a term is not enforceable if the interest in its enforcement is clearly outweighed in the circumstances by a public policy against enforcement of such terms. Some commentators, however, find this interpretation strained at best.

⁶⁹ See e.g., American Committee for Interoperable Systems letter to Carlyle Ring, Nov. 30, 1998, <<http://www.2Bguide.com/docs/1198acis.html>>.

The key to the Perlman compromise may lay not in the black letter law, but in the comments. To be sure, the black letter law was adapted to reflect a wider understanding than the previous unconscionability standard. However, the comments contain an explicit reference to three critical policies: “fundamental public policies such as those regarding innovation, competition, and free expression.”⁷⁰ These simple words invoke three sets of public polices which are both strong and necessary to the American tradition.

The comments go on to explain: “Innovation policy recognizes the need for a balance between conferring property interests in information in order to create incentives for 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.”⁷¹ In the following section, this article will review these three policies, to illustrate the sort of interests that might override the freedom of contract in the American system.

A. Innovation

The idea that intellectual property law is part of innovation policy derives from the United States Constitution. It confers upon Congress the power to secure “for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries” in order to “promote the Progress of Science and the useful Arts.”⁷² This power has long been understood as an important means to promote the larger public interest by creating incentives for authors and inventors to write and discover.⁷³

Over years, the U.S. Supreme Court has acknowledged and advanced innovation policy through its decisions. As the Court explained, “[this] limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the

⁷⁰ U.C.C. art. 2B, §2B-105 (Draft, Dec. 1998), Reporter’s Notes §1.

⁷¹ *Id.* at Reporter’s Notes §3.

⁷² U.S. Const., Art. I, sec. 8, cl. 8.

⁷³ See, e.g., *Trademark Cases*, 100 U.S. 82 (1879) (striking down a federal trademark statute claimed to be authorized under this clause); *Graham v. John Deere*, 383 U.S. 1 (1966) (suggesting that invention standard for patent law has constitutional foundations); *Feist Publications v. Rural Tel. Service Co.*, 499 U.S. 340 (1991). (suggesting that Congress does not have the constitutional power to confer copyright protection on unoriginal compilations of data).

public access to the products of their genius after the limited period of exclusive control has expired.”⁷⁴

The Constitutional language has inspired and required public policy limitations designed to achieve the delicate balance between incentives and the public interest. An excellent example is the U.S. Supreme Court’s decision to strike down a Florida state “plug mold” statute, partly because of constitutional conflicts with patent policy.⁷⁵ By providing unlimited duration to a boat hull design that had already been sold to the public, the statute conflicted with the American notion that intellectual property protection serves to incent new works for enlargement of the public domain.⁷⁶ The patent-like protection was available without regard to the novelty of the design, and was enacted six years after Bonito’s design was first sold to the public. This, the Court found, endangered the balance between incentives to create new works and ability to make follow-on innovation from vast repository of literary, artistic, and technological works that are in the public domain.

Economists concur with the view that an optimal production of new and innovative ideas will occur when the right balance is achieved.⁷⁷ This is why the American intellectual property system allows for certain exceptions to the property rights accorded inventors and authors, so as to not frustrate opportunities for future development. Unlimited enforcement of contractual terms can endanger this careful balancing. For example, a mass-market contractual clause might purport to prohibit the copying of some information in the public domain. At first glance, it might seem unfair to copy that which has been created through the efforts of another. However, allowing copying of another’s unprotectable work is “not ‘some unforeseen byproduct ... It is, rather, the essence of copyright’ and a constitutional requirement. ... It is the means by which copyright advances the progress of science and art.”⁷⁸ Under American innovation policy, a clause restricting that right should be unenforceable.

⁷⁴ Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).

⁷⁵ Bonito Boats v. Thunder Craft Boats, 489 U.S. 141 (1989).

⁷⁶ The law would have prevented both the making and selling of the boat hull design, with a perpetual term. Fla. Stat. §559.94 (1987).

⁷⁷ See, e.g., Frederick Warren-Bolton, Kenneth C. Baseman, & Glenn A. Woroch, *POINT: Copyright Protection of Software Can Make Economic Sense*, 12 COMPUTER LAW 10 (Feb. 1995); Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 997-998 & n.32 (1997); William Landes & Richard Posner, *An Economic Analysis of Copyright Law*, 28 J. OF LEGAL STUD. 325, 326 (1989).

⁷⁸ *Feist*, 499 U.S. at 349.

B. Competition

The American antitrust laws seek to protect the public interest in competition by prohibiting acts that exclude competitors from the marketplace or restrict output and raise prices so as to harm consumer welfare. The edict is simple: contracts that unreasonably restrain trade are illegal.⁷⁹ Over the years, the courts have clarified this rule. For example, actions like price fixing are considered per se violations, while others are subject to the ‘rule of reason’—that is, they are violations if they have the intent or effect of harming competition. Companies are forbidden from monopolization, attempted monopolization, and conspiracy to monopolize,⁸⁰ and tying arrangements and exclusive dealing are illegal if they substantially lessen competition.⁸¹ In this respect, Article 2B now more closely resembles some European Union policies that limit contractual freedom to promote competition and innovation.⁸²

Article 2B has the potential to upset the efficient allocation of resources with which antitrust law is concerned. For example, both U.S. and European competition policies favor interoperability of computer systems. In the United States, the copyright concept of fair use permits end users to decompile a copyrighted computer program to achieve interoperability.⁸³ The interest in allowing and encouraging compatible products outweighs the copyright interest in preventing the temporary copies necessary to achieve interoperability. A mass-market contractual provision, however, could attempt to override this pro-competitive right. Without public policy interests in the statute, a court might uphold provisions which frustrate the policies supporting interoperability. In the European Union, the right of interoperability explicitly outweighs the freedom of contract.⁸⁴

Similarly, there are times when competition law principles are invoked to require a dominant firm to license its intellectual property to other firms on competitive terms. The

⁷⁹ Sherman Act §1.

⁸⁰ Sherman Act §2.

⁸¹ Clayton Act §3.

⁸² See e.g. Council Directive of 14 May 1991 on the legal protection of computer programs, Official Journal of the European Communities no. L 122 , 17/05/91 p. 42 [European Software Directive], Art. 6, §(1), Art. 9, §(1); Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, Official Journal of the European Communities of 27/3/96 no. L 77 p. 20 [European Database Directive].

⁸³ *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510 (9th Cir. 1992). See also *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832 (Fed. Cir. 1992).

⁸⁴ European Software Directive, Art. 6, §(1), Art. 9, §(1).

European Court of Justice has affirmed a ruling by the European Commission, based on competition policy concerns, that required three television broadcasters to license their respective weekly listings on a non-discriminatory basis.⁸⁵ The Commission determined that the broadcasters were abusing their dominant position in the Irish market by refusing to license the listings to a comprehensive weekly TV guide. This too recognizes the importance of competition policy as a basis for overriding some contractual terms.

C. Free Expression

Like many nations, the U.S. Constitution finds freedom of expression to be a fundamental right.⁸⁶ Yet, freedom of contract, as expressed in Article 2B, raises the specter of conflicting with free speech concerns embodied in the American Bill of Rights.

Despite the high regard the American tradition has held for free speech rights, it is not without limitations. Some contractual restrictions on freedom of speech have been upheld. For example, the U.S. Supreme Court found the government's interest in a speech limiting contract signed by an American intelligence agent outweighed the agent's interest.

⁸⁷ Likewise, the U.S. Supreme Court has upheld a damage award when a newspaper violated an agreement to keep secret the name of a "leak" about a political figure.⁸⁸

While it may be reasonable to uphold a contract that is limited to two parties, a mass-market contract raises more compelling concerns. When a term is non-negotiated and distributed with every instance of the license, what was compelling becomes almost overwhelming. For example, Network Associates, an American developer of anti-virus utilities, licenses software on the basis that "the customer will not publish reviews of the product without prior consent."⁸⁹ If this term was enforced, no criticism of the product could be effectively voiced.

⁸⁵ *Radio Telefis Eireann and Independent Television Publications Ltd. v. Commission of the European Communities*, Court of Justice of the European Communities, 1995 ECJ Celex Lexis 3670, (April 6, 1995).

⁸⁶ U.S. Const., Amend. I. This right is respected in a number of national and international conventions. See, e.g., Article 10 of the European Convention for the Protection of Human Rights and Article 19 of the International Covenant on Civil and Political Rights. The European Parliament's guidelines for the directive on copyright in the information society have also suggested that these rights be considered. See Lucie Guibault, *Preemption Issues in the Digital Environment: Can Copyright Limitations Be Overridden By Contractual Agreements under European Law?*, 1998 MOLENGRAFICA § 1.1.1.

⁸⁷ *Snepp v. United States*, 444 U.S. 507 (1980).

⁸⁸ *Cohen v. Cowles Media*, 501 U.S. 663 (1991).

⁸⁹ James Gliciek, *It's Your Problem Not Theirs*, <<http://www.around.com/agree.html>> (discussing subscribing to Microsoft's Slate on-line magazine). Another example cited is the Microsoft Agent software license, which contains a clause forbidding use of the program to disparage Microsoft.

Conclusion

Article 2B of the UCC is the latest salvo in the continuing struggle between the freedom of contract and public policy. Initially it proposed to allow for a freedom to contract in all transactions of information, limited only by unconscionability. The sweeping scope and unfettered freedom of the proposed model law, however, raised questions and concerns from a host of critics. Numerous industries sought to be removed from the scope of the article, and commentators pointed to legal and policy problems with the proposed rules.

These pressing questions ultimately led to a sharp reduction in the scope of the article, and the introduction of explicit public policy overrides into the model law. The drafters and their critics compromised on the model law, and allowed the statute to recognizing and promote innovation, competition and free expression.

These principles are the bedrock upon which much of the modern information economy is based. For any nation to endorse supremacy of freedom of contract without the limitations of public policy, the stability of this bedrock could be threatened. Unfettered contractual provisions may be used to overprotect intellectual property, reduce competition and frustrate free expression. Without these policies, investment in innovation and the growth of commerce may be inhibited, causing investment to go elsewhere.

New rules inevitably raise issues that need to be examined closely, including the proper relationship between freedom of contract and public policy. The global nature of the information economy needs a stable and widely accepted set of predictable, fair contract rules. This article aims to provide intellectual property and commercial law specialists from around the world with useful information about a U.S. initiative that may be offered as a model law for the global information economy. It is important for an international conversation to be had on its main contours.