



Coming Soon to Your State (But Not Ready for Prime Time): UCITA

by James S. Heller

In July 1999, the General Counsels, Vice Presidents, and other senior officers of major information industry technology companies (including Adobe Systems, Intuit, SilverPlatter, Lotus, Novell, and Microsoft) wrote to the National Conference of Commissioners on Uniform State Laws (NCCUSL) urging adoption of the *Uniform Computer Information Transactions Act (UCITA)* at the then-imminent NCCUSL meeting in Denver. The executives supported *UCITA* because "it is true to three commercial principles: commerce should be free to flourish in the electronic age; rules should support use of new (in this case electronic) technologies; marketplace forces should determine the form of these transactions."

It is hard to argue with these principles. I support an exuberant economy, but not at the expense of other important public policies such as the free sharing of information in the public domain and the rights afforded to those who use intellectual property under the *Copyright Act*, such as fair use.

I support rules that further the development of new technologies, but not at the expense of consumers and library users. I cannot endorse rules that enable vendors to hide terms in contracts few are likely to read, to change contract terms by sending an e-mail message one may never see, or that put licensees at a vendor's mercy by threatening self-help measures.

Last spring, Virginia was the first state to pass *UCITA* legislation. Several months earlier, Virginia Governor James Gilmore indicated his support for the Act when he wrote (*Legal Background*, 7/14/00) that "Nothing could be more basic to a free market than the right of vendors and purchasers to negotiate their respective rights and responsibilities. *UCITA* underscores the right of software and information vendors, and their customers, to negotiate contractual terms."

The marketplace works quite well when we are dealing with goods. I can choose between a Ford, a Toyota, and a host of other automobiles. If I don't want a Maytag, I can buy a General Electric. But personal property and intellectual property are very different animals; information is not fungible. If a student, a teacher, or any citizen of Virginia wants to read a book or article written by a particular author, they want *that* book or *that* article. You cannot simply substitute someone else's work.

I cannot say everything is wrong with *UCITA*; much of the proposed *Act* is fine. But *UCITA* is unbalanced, and fundamentally so. It tips the scales in favor of information creators and vendors at the expense of those who use information. Information, unlike cars and washing machines, ought not be treated as a commodity. I share many of the concerns expressed by 26 state attorneys general, by the Federal Trade Commission, and by the library and consumer communities who have opposed *UCITA*.

I would like to explain some of my concerns with *UCITA*, beginning with validation of licenses. Our courts are divided on the validity of click or shrink-wrap licenses that create binding contracts by a click of a mouse or by merely opening a software package. *UCITA* validates such contracts. Furthermore, the *Act* permits one of the parties—which you can assume will be the publisher/licensor rather than the consumer/licensee—to define what conduct constitutes consent in future transactions. *UCITA* not only permits the licensor to change the standards for manifesting assent, but also permits changes to the contract itself. (All *UCITA* citations refer to the 2/9/00 draft.) In fact, an electronic message changing contract terms may be enforceable even if the licensee never receives it.

I would not be concerned if the contract were really negotiated. Where choices exist, consumers can seek terms they consider fair. Vendors who must compete for someone's business are more willing to negotiate. But a vendor can make a "take it or leave it" offer when the consumer has no bargaining power. This is particularly true for legal information, where the commercial market is dominated by two major publishers (Canada's Thomson Company and British/Dutch Reed-Elsevier). Terms that are negotiable in the competitive world of "goods" become, in a non-competitive world, de facto industry standards.

Governor Gilmore and other *UCITA* supporters maintain that *UCITA* protects freedom of contract. They acknowledge that the *Act* permits parties "to enter into contracts defining their respective rights in intellectual property." This approach highlights probably the most fundamental problem with *UCITA*: it will likely eviscerate congressional and judicial policies that recognize important social and commercial uses of intellectual property such as fair use, the library exemption, and the first-sale doctrine.

UCITA permits licensors to prohibit the transfer of goods from a licensee to another individual or institution. Such terms would have the effect of overturning the *Copyright Act's* first-sale doctrine. Individuals may be precluded from making gifts to libraries, and libraries from lending many of their materials. (The first-sale doctrine of the *Copyright Act* permits the owner of a copy of a work to sell or otherwise dispose of the possession of the copy. Section 109 of the *Copyright Act* does prohibit the lending of sound recordings and computer programs, but makes an exception for nonprofit libraries and nonprofit educational institutions, which may do so under certain conditions.)

A copyright owner's right to make copies of his or her work is subject to important exceptions, most notably fair use. When planning your summer vacation you may, under fair use, photocopy an article on the Shenandoah Mountains from a journal owned by your public library. Under fair use, your child may copy an article on the 2000 presidential election for her social studies class. These are well-established, long-accepted practices when the library owns a print copy of the magazines.

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But what if the articles are in an electronic version of the magazine, and the license states that users who print even a small portion of an article are infringing? Presumably you and your child are bound by the license, even though neither of you had any say in its formation, and even though what you want to do is permitted under the *Copyright Act*. There may be problems for the library, too.

UCITA states that whether a party to an agreement breaches the contract is determined by the agreement, or in the absence of an agreement, by the *Act*. "If a license expressly limits use of the information or informational rights, use in any other manner is a breach of contract." The patron's breach, then, is the library's breach. And when that happens, the licensor may terminate the contract and recover the information.

In drafting the *Copyright Act*, Congress also included specific rights for libraries in what is called the library exemption. Under certain circumstances, the exemption permits a library to copy an article for a teacher, for a student, or for another library to fill an interlibrary loan request. Licenses that override these important rights will adversely affect not only teachers and students, but all citizens.

UCITA supporters maintain that the *Act* includes important safeguards because unconscionable terms are voidable. In other words, if you have a problem, go to court. (For example, *UCITA* provides that whether a term is conspicuous or is unenforceable are questions to be determined by a court.) But few consumers or libraries have the resources to do so; even if they did, proving unconscionability may be difficult indeed. For example, John E. Murray, Jr. (*Murray on Contracts*, 1990) quotes Judge Skelley Wright: "In the well known case, *Williams v. Walker-Thomas Furn. Co.*, ... unconscionability has generally been recognized to include an absence of meaningful choice on the part of one of the parties together with contract terms which are unreasonably unfavorable to the other party."

Supporters also contend that consumers and libraries are protected under the *Act's* "preemption" and "fundamental public policy" provisions. *UCITA* states that a provision of this *Act* which is preempted by federal law is unenforceable to the extent of the preemption. In addition,

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. *UCITA* section 105(b)

Unfortunately, these safeguards do not provide adequate protection for consumers or libraries. In addition to providing that parts of the *Act* that are preempted by federal law are unenforceable, *UCITA* also should invalidate contractual terms that are inconsistent with federal policy. In other words, section 105(a) should read that "provisions of the *Act* or of a contract that are inconsistent with federal law or policy are unenforceable." With this added language, contractual terms designed to negate fair use, the library exemption, and the first sale doctrine would be invalid.

Let me offer an example that illustrates what is wrong with *UCITA*. I want to provide a committee with copies of federal statutes and court decisions relevant to the issues we are discussing. I locate relevant documents on either the LEXIS or WESTLAW legal databases, and, after removing any proprietary information, download the cases and laws. But I discover that the license agreement permits me only to "transfer and store temporarily insubstantial amounts of downloadable data."

Materials of the federal government, including statutes and court decisions, are in the public domain. I could have copied laws and court decisions from print codes and print case reporters for you. But I cannot do so using electronic versions of the same materials because their use is governed by license. Should the world of digital information, governed by license, have practices and rules so different from the world of print? Governor Gilmore apparently believes so:

... this new Internet reality justifies new rules of engagement. UCITA follows that paradigm by permitting the parties to enter into contracts defining their respective rights in intellectual property. Admittedly, new rules will require businesses to modify their contract behavior and strategies—but this is a natural consequence of an evolving

economy. Unless and until UCITA is determined to be preempted by federal copyright law by another court, this uniform law presents the most practical approach for constructive legal reform in a technology driven economy.

Apparently these new rules of engagement encourage end runs around the law. For example, legislation that would protect non-copyrighable databases has been stuck in Congress for several years. Although Congress has not passed such legislation, publishers apparently can accomplish the same result by license. The Governor apparently believes that if Congress won't create "new rules," the business sector should.

The Governor also writes that consumers and businesses need "predictable, coherent, and uniform rules for the electronic marketplace." Unfortunately, the only thing predictable about *UCITA* is its uncertainty. Both Virginia and Maryland passed *UCITA* in versions different from what may be introduced in other state legislatures later this year or next. This *Uniform Law*, it turns, out, is still a work in progress.

At NCCUSL's summer 2000 meeting, the Conference passed some additional amendments to *UCITA*. Here is what it wrote:

A number of styling and clarification amendments as well as amendments required to be ratified by the Conference were part of a discussion with the following associations: Motion Picture Association of America, Magazine Publishers of America, Newspaper Association of America, National Cable Television Association, National Association of Broadcasters, and the Recording Industry Association of America. As the Conference will recall, five of these associations had concerns about UCITA and in lengthy discussions, these amendments were worked out as a package and with the adoption of these amendments by the Conference, these associations formally in writing have withdrawn their opposition to the enactment of UCITA.

It appears that NCCUSL promoted to state legislatures, including Virginia and Maryland, a *Uniform Act* that was not finished, an *Act* the Commissioners were willing to amend to placate special

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corporate interests. In their haste to lead the Internet revolution, Virginia and Maryland passed a "Uniform Act" whose ink was not yet dry.

UCITA is bad for consumers and for libraries. It allows vendors to prohibit the transfer of software from library to user, from library to library, from company to company, and from individual to

individual. It binds licensees to terms disclosed only after they have paid for the software. It allows vendors to change terms unilaterally by e-mail or perhaps even by posting to their Web sites. It enables licensors to override legislative and judicial policy.

The Uniform Computer Information Transactions Act, which began life as

Article 2B of the Uniform Commercial Code, may have been nearly a decade in the making. It is coming to your state, but it still is not ready for prime time.

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