UCC ARTICLE 2 B AND THE IMPACT ON COPYRIGHT LICENSING - A EUROPEAN PERSPECTIVE

by

Prof. Dr. Thomas Hoeren *

Since the very beginning of the drafting of Article 2 B UCC[1], its impact on intellectual property law has been disputed.[2] The dispute started when the drafting committee decided to extend the scope of the article from mere software licensing to contracts on every informational good: Article 2B now covers licenses of information and software contracts for existing information and for information to be developed as well as any agreement related to a license or software contract in which a party is to provide support, maintain or modify information. Licenses of trademarks, trade name, trade dress, or of patents and related know-how are not covered unless they are associated with a license or software contract that is otherwise covered by this article (Sect. 104 (2)).

This extension led to the fear that the new regulation will become the super-act on copyright licensing. In the preface of the text, the drafting committee pushed this question aside by mentioning that patent and copyright law do not affect contract law (see also Sect. 105 (a)). This idea of a coexistence of copyright and contract law is puzzling. Both areas are not coexisting in parallel universes, they are intermingled and depend upon each other. Copyright law provides the background for licensing while contract terms are deciding upon the value of an exploitation right or the applicability of a certain copyright regime. While the first relationship is clear the latter-mentioned liaison between copyright and contract law is not self-evident and should be considered in the following.

---

* Director of the Institute for Information Technology, Telecommunications and Media Law, University of Muenster (Germany). This text is based upon research done within the ESPRIT project ECLIP financed by the European Commission/DG III. My considerations do not reflect the view of the European Commission or of one of the ECLIP research centres.

1 The considerations are based upon the Draft of August 1, 1998 (with Reporters´s Notes published by the American Law Institute and the National Conference of Commissioners on Uniform State Laws (published in the internet under http://www.law.upenn.edu/library/ulc/ulc.htm). The results of the NCCUSL meeting of November 1998 could not be implemented in this text.

2 See e.g., Nimmer, Cohn & Kirsh, License contracts under Article 2 of the Uniform Commercial Code: A proposal, 19 Rutgers Comp.L & Techn. L.J. 281 (1993); Holly K. Towle, Proposals to change the Uniform Commercial Code - Article 2B, 510 PLI/Pat 233.

A. Information

Before I start to argue upon the regulations of Article 2B, it is necessary to have a closer look at the term Ainformation itself which is the key figure of the whole draft. According to Sect. (1) (24) information means Adata, text, images, sounds, mask works or works of authorship. The Reporter (Dean Raymond T. Nimmer, Leonard Childs Professor of Law, University of Houston) explains this definition (No. 22) by hinting at its broad nature and by distinguishing information and data (a term only used for Afactual information). This definition is amazing and confusing. For instance, texts seem to contain some Afactual information (hopefully) and are mostly regarded as works of authorship under copyright law. Apart from these uncertainties and overlaps, the term Ainformation is really used in a very wide sense. It includes all kinds of works, such as books, motion pictures and databases irrespective of their protectability. Therefore, Article 2B tends to become the mega-act, the most important business regulation in the view of the 21st century.

But no rule without exceptions. Due to the high amount of lobbying involved, there are a lot of exceptions as to the applicability of Article 2B. First, this act does not apply to sales of books, magazine, videos and records. This exception is based on the distinction between licenses and sales. Except for software, the article is limited to licenses defined as Acontracts that expressly regulate use of acquired information (Note of the reporter in Art. 102 No. 3 b). With regard to electronic books or newspapers, article 2b shall apply as these products are delivered via access contracts where the information is made available at a time and place of the licensee´s choosing. The reporter even applies Article 2b to multimedia products as they are to be regarded as software products Ain which software-created capabilities and information are central to the product (Art. 103 No. 3b). These considerations are not only confusing, they are also wrong. There is no difference between the delivery of an electronic book and a printed version from a legal point of view. In both cases, the user will become the owner of the copy he has received. The fact that he can choose the time and place of delivery in an electronic environment does not matter. Otherwise any sale of a book in a big bigshop like Barnes & Noble would have to be regarded as a mere access contract. Additionally multimedia products cannot be classified as software. Of course you need some software tools to create an interactive CD-ROM, for instance for the purpose of electronic learning. But these tools have to be distinguished from the content, the texts, pictures, images used within the product: A hammer used for the construction of the wooden house is not a house itself. Multimedia products are usually distributed via sales contracts and have therefore to be treated in the same way as sales of records. Thus, they have to be excluded from the scope of Article 2B itself.

This remark leads however to a final question: Why are books or records exempted from the new regulation at all? There is no economic reason for excluding these products. Books or records (by the way, who is buying Arecords today as there are almost only CDs available in record stores?) contain a lot of information so that they should covered by an act which is proclaimed to be the overall information contract statute. The reporter tried to explain the exclusion by hinting at the difference between licensing and sale. In fact, this distinction might be

necessary to structure the relationship between Article 2 (related to sales law) and Article 2B of the UCC. In the light of this approach, Article 2 is an Aliud, a totally different regulation, compared to Article 2B. But this distinction is not self-evident; there are a lot of overlaps betwen licensing and sale of informational goods. For the use of a CD-ROM, you need to have the property as to the copy and additional license rights (for instance related to the storage of the CD-ROM in the RAM which might constitute a reproduction under Copyright Law). The contract itself has be classified as a sales contract. But depending on the importance of required license rights, the contract may additionally amount to a licensing agreement. How does this contract fit into the system of the future UCC? Furthermore, information is very often sold to somebody else. Take for instance the case of an undertaking which wants some information as the market behaviour and the technological progress of competitors: Their agreement would have to be classified as a contract similar to a sale if the vendor has the exclusive right to use the information for his own purposes. The question then arises whether an agreement like that can still be classified as a license under Article 2b.

Another regulation causes distress with regard to the scope of applicability of Article 2b. According to Sect. 104 (8), Article 2b cannot be applied to the license of Aa linear motion picture or of information to be included therein. Furthermore, licenses for regularly scheduled or video programming by broadcast or cable or any similar regularly scheduled programming service do not fall under the scope of the regulation (Sect. 104 (6)). The reporter stated that these subsections exclude traditional licensing in the motion picture, broadcast and cable industries, but that Article 2b applies when companies move into Aonline-systems, software, multi-media and similiar licensing (Sect. 104 No. 7). This distinction puzzles me. In the context of digital convergence, there is no borderline between traditional broadcasting, video-on-demand, satellite transmission and online services any more. The term Atraditional used by the Reporter has no sense as the Atradition of film licensing is already based upon the use of digital technology. Therefore, it remains dubious what the reporter had in mind when he referred to Atraditional licensing or what Sect. 104 (8) covers as Alinear motion picture. Do these attempts of interpretation relate to the 19century technology of celluloid? Are motion pictures in a digital format object of Article 2B? What about digital broadcasting?

B. Private International Law

After the definition of Ainformation has been considered, it is important to know to which extent this regulation might effect European business. Sect. 107 (a) and (b) provides that the parties are free to choose the applicable law. If there is no regulation on that topic in the contract, the agreement is governed by the law of the jurisdiction with the most significant relationship to the contract transaction. In the case of an access contract or a contract providing for electronic delivery of a copy this is the pace where the licensor is located. In cases in which a consumer is involved, the contract is governed by the law of the jurisdiction in which the copy is delivered or delivery as agreed to be occurred.

Insofar, the choice of law question has been solved in a reasonable way. But another provision is striking in the light of European business. If the parties have not agreed upon the applicable law, foreign law shall only be applied if it provides substantially similar protections and rights to a party as provided for in the UCC. Otherwise, the UCC had to be applied directly. The reporter explained this subsection by hinting at its importance of the global Internet content. As no state apart from the UCC will have a regulation like the UCC in the future, Article 2 B has to be applied in almost every electronic commerce transaction.

This attempt of paternalism is a defamation for Europe. I am wondering why American lawyers are behaving like that. When James Monroe declared his doctrine of AAmerica to the Americans, he had not the idea that the whole world had to be administered by American law. After the Semiconductor Chip Protection Act and similar acts, the UCC is another example of American arrogance and chauvinism. And I am still fond of listening to American lawyers who are criticising harshly the European Communities for using the equivalent-protection-doctrine in their Directives on Database and Data Protection. The European Commission only learned to use this protectionistic approach from their US colleagues.

The only solution would be to apply ideas of forum shopping. If you are choosing a non-US court, this court will regularly not have to apply the principles of private international law embodied in the UCC. But however, the drafting committee has already foreseen this way of escape. According to Sect. 108, the parties may choose an exclusive judicial forum unless the choice is unreasonable and unjust. This approach follows the new line of Supreme Court[3] which is using this limitation to help US citizens who wants to sue in front of US courts. It might therefore be probable that the US courts will use this opportunity to establish US jurisdiction. The reporter however noted that in an internet transaction the choice of forum at a party´s location is usually reasonable due the international risk that would otherwise exits (no. 7). Therefore, the choice of forum question (and thereby the choice of law problem) can be solved at least in the area of internet business.

C. Shrink- and Click-wrap licensing

The most crucial aspect of Article 2B is the question of mass-market licenses, including shrink- and click-wrap licenses. In principle, the draft committee has been very generous in accepting the validity of these agreements which caused a lot of discussions even whithin the United States.[4] According to Sect. 208, mass-marketing licenses are closed where and if the

---

3 See Bremen v. Zapata Offshore Co. 407 U.S. 1, 10 (1972); Perkins v. CCH Computax Inc. 106 N.C.App. 210, 415 S.E.2d 755 (1992). Other cases are mentioned in the notes of the reporter to Sect. 108 under No. 2.

4 See Zarchary M. Harrison, Just click here: Article 2B´s failure to guarantee adequate manifestation of assent in click-wrap contracts, 8 Fordham Intell. Prop. Media & Ent. L.J. 907 et seq.; R. Gomulkiewicz & M. Williamson, A brief defense of mass market software licensing agreements, 19 Rutgers Computer & Tech. L.J. 335 (1996); Apik Minassian, The Death of Copyright: Enforceability of Shrink-Wrap Licensing Agreements, 45 UCLA L. Rev. 569 (1997).

customer agrees to that license by manifesting assent Aor otherwise, before or during the initial performance or use of, or access to, the information or information rights. The wording is dubious due to the complexity of the discussion within the drafting committee. For instance, A(informational) rights cannot be performed, used or accessed to. Apart from that, the extent of that regulation to software sales is not very clear. The section itself only refers to Alicenses, not to sales. Sales and licenses are clearly distinguished in the terminology of Article 2B (see Sect. 102 (45)). This is even true for the term Amass-market licenses which is related to an agreement with an Aend-user licensee (Sect. 102 (32)). Therefore, it might be questioned whether the regulation on mass-market licenses applies to software sales and other sales as well. However, there is a tendency in US law to regard almost every software contract as license so that the question of sales might only be a European one. But then the next question arises: Even if the whole section applies to the click- and shrink-wrap distribution, can this approach be regarded as compatible with traditional contract law. I don´t think so: Only in the case of click-wrap licensing, the use of the OK button can be regarded as an acceptance.[5] The case of shrink-wrap licenses has to be regarded in a different way.[6] The user has already got his software license when he paid for the software package to the seller. Therefore, he is already allowed to open the package as licensee. It is not a consent of the licensee if he is opening the package and using Ahis copy of the software. Therefore, the producer of the software cannot argue that opening the click-wrapped package has to be regarded as an acceptance to a second contract closed between the producer and the user. The reporter however expressly stated that it is important (for whom?) to establish the enforceability of a post-payment license between the copyright owner and the end user (No. 3). Then he concluded: ALicenses in the mass market and otherwise typically create rights that go beyond the rights that arise in the event of more sales of copies. That phrase might have been taken from an advertisement of Microsoft. It is a lie: I have never found a shrink-wrap license which gives more rights to an end-user than he already has according to his contract with the retailer.[7] Shrink-wrap licenses are commonly used by produc-

---

5 I hereby accept and agree to the considerations of Michael Scott, Protecting software transactions on-line: the use of Aclickwrap licenses, 482 PLI/Pat. 101 (1997). Cf. Allen R. Logan, Implied Licensing Issues in the On-line World, 14 Computer Law. 1 (1997).

6 See also Wyse Technologgy v. Step-Saver (court used ə 2-207 to hold that a shrink-wrap license in software packages delivered after a prior telephone contract did not become part of the sale contract); Arizona Retail Sys. Inc. V. Software Link Inc. 831 F. Supp. 759, 22 UCC Rep. Serv2d 70 (D Ariz 1993) (skrink wrap not enforceable where there was a prior telephone agreement). There are yet other courts which held that shrink wrap terms can be enforced in any way; see ProCD, Inc. V. Zeidenberg, 86 F. 3d 1447 (7th Cir. 1996); Hill v. Gateway 200 Inc, 1997 WL 2809 (7th Cir. (Ill.). These decisions have yet been sharply critized in US literatur; see D.C. Toedt III, Counterpoint: Shrinkwrap license enforceability issues, 13 Computer Law. 7 (1996); Christopher L. Pitet, The Problem with AMoney Now, Terms later, 31 Loy. L.A. Rev. 325 (1997); Darren C. Baker, ProCD v. Zeidenberg: Commercial Reality, Flexibility in contract formation, and notions of manifested assent in the arena of shrinwrap licenses, 92 Nw. U. L. Rev. 379 (1997)

7 Similar views may be found in US literatur; see Mark A. Lemley, Intellectual Property and Shrink-Wrap Licenses, 68 S. Cal. L. Rev. 1239 (1995).

ers to restrict the rights of users.[8] They are means to control the position of retailers who might grant more rights to end-users than the producer wishes. On the basis of the sales contract, the end-user is already entitled to use the copy, resale it, alter it according to his needs, make a back-up copy; all these rights are guaranteed for instance by the European Software Protection Directive. Therefore, end-users usually have no reason to accept the terms of a shrink-wrap license. Even the aspect of warranties mentioned by the Reporter (No. 3) is not helpful. The warranties granted by the producer in the shrink-wrap license are usually very limited; normally it is more efficient for the end-user to sue against his retailer who is then pressesing the producer for support and assistance. The producer is anyhow liable for damages caused by his product under the provisions on statutory liability. Therefore, there is really no need for the glorification of shrink-wrap licenses unless the draft committee has been influenced by software industry lobbyists (a fear which is caused by a look on other provisions of Article 2b as well).

The drafting committee tried to balance the regulation in favour of the concerned consumers by installing an additional unconscionableness test. The terms of a shrink-wrap license do not become part of the contract if they are unconscionable. However, the concept is not explained any more in the whole text; thus nobody knows what is Aunconscionable or, as the reporter interprets, Abizarre and unfairly oppressive (Comment on Sect. 110 No. 3). Therefore, some participants in the UCC discussion expressed their concern about this uncertainty which forced the reporter to produce a second version of the text (which has been discussed in the committee so far). According to that version, a term is unconscionable if the consumer has no knowlege of it them and the term varies unreasonably from applicable industry standards or conflicts substantially with the negotiated terms or the essential purpose of the contract. This model is based on wrong assumptions and in addition, it is not very helpful. First, it has to be considered that a consumer usually has knowledge of the terms of the contract before he enters to an agreement. It would be impossible for the consumer to prove that he did not know the terms in his particular case. Apart from that, there are no applicable industry standards in the information industry as this business is a new one without any tradition in contract terms. Furthermore, the substantiality of the conflict between one term and the other principles of the contract cannot be evaluated. The reporter only replaced unconscionableness by substantiality without defining one of these words.

D. The interpretation of licenses

Sect. 307 tries to define the scope of a license. A license grants the right to use the information or informational rights that are expressly described or which are necessary in the ordinary course. Improvement or modifications cannot be maid after the license become enforceable; neither party is entitled to receive copies of source or object code or other information used for the development of the information. In general, this regulation corresponds to the traditional principles for the interpretation of intellectual property licenses. There are yet some

[8] See Thomas Hemnes, Restraints on alienation, equitable servitudes, and the feudal nature of computer software licensing, 71 Denv. U.L. Rev. 577 (1994)

unsolved problems within the text. First, it has to clarified whether the interpretation rules only apply in the case of missing express contract clauses. This is a particular problem for the right to additional materials. The regulation here excludes any transfer i.e. of source code without making a exemption for the case that the parties have agreed otherwise. This idea has only been mentioned in the Notes of the Reporter (No. 1). Furthermore, it is unclear whether this regulation would also exclude statutory permissions such as the right of access to information under antitrust law or the right to reassemble according to Copyright law. Here again, it is only the Reporter who hints at this problem in his Notes. There he stressed that an act which is permitted by law cannot be regarded as a breach of contract (No. 2).

E. Electronic regulation of performance

Another section deals with devices that restrict the use of information (sect. 310). The use of these technical devices is very generously permitted. It is only necessary to authorize the use in the agreement; otherwise, it is allowed to use these restraints in the information for preventing the unauthorized use of the information. In addition, there is an exemption from liability for any use of these devices. Finally, it is always allowed to destroy or disable the old version of a product in connection with delivery of a new copy or upgrade. This is a very excellent regulation in the eyes of software producers but unfortunately a very bad one with regard to consumers (which obviously had no big influence in the drafting of Article 2b).[9] The concept contradicts to almost everything we know about (at least European) copyright and tort law. Let us first look at the tort issue. There is no reason why a producer should not be liable if he is causing damage by the use of an (i.e. fective) technical protective device; even the Reporter (who normally used long commentaries for each subsection) does not mention any justification for this statutory exclusion of liability. As to copyright law, it is not allowed to prevent the resale of a software copy according to the exhaustion doctrine (even in the United States). Using the future UCC, the producer could however justify a destruction of software copies stored on a computer even if the copies have formerly been sold to the customer. Behind this mistake, there is a bigger problem which nobody has considered in the discussion on Article 2b. Technical protection devices can be used in a manner which contradicts to the fair use of copyrighted works or other statutory limitations. Anti-copying instruments can overrule the well-balanced concept of rights and limitations underlying Intellectual Property Law. This danger has not been regarded by the drafting committee of Article 2b - again in favour of the (US) information producers.

F. Transfer of License

Of course, provisions on the transfer of licenses are of big importance in the perspective of IP lawyers. Article 2b distinguishes title to the copy from ownership of the intellectual prop-

---

9 For the importance of Article 2b as to consumers see Diane W. Savage, The impact of Proposed Article 2B of the Uniform Commercial Code on consumer contract for information and computer software, 9 Loy. Consumer L. Rep. 251 (1997).

erty rights. Transfer of a copy does not transfer ownership of informational rights in the information (Sect. 501 (b) (1)). The title to a copy is determined by the license; a licensee´s right to possession or control of a copy is governed by the license and does not depend on title to the copy (sect. 501 (b) (2)). If the party to which ownership or title passes refuses delivery of the copy or refuses the terms of the contract, ownership and title revest in the licensor (sect. 501 (d)). These regulations might be consistent and compatible with US common law. But they are not taking into consideration EU legislation although Article 2b pretends to have a worldwide dimension (see above). Transfer of a copy may imply an implicit license as to those rights which are necessary for the use of the sold copy. Therefore, there is no clear borderline between sale and license. In addition, it is not possible to determine the title to a copy by the license as this contradicts to the overall concept of the distinction between title of the copy (property) and license. At least in several EU member states (such as Germany), property rights are abstract and unaffected by contractual obligations. It would be impossible to implement regulations equivalent to Article 2b in Germany without changing the whole structure of traditional contract and property law. The drafting committee again only adopted an US approach in favour of the licensing industry.

G. Other regulations and conclusions

There are of course a lot of other regulations embodied in Article 2b. I can only hint at some aspects such as

- electronic contracts
- the warranties of authority and non-infringement
- the warranties of informational content (excluding any liability for inaccurate or incomplete information)
- exclusion of all warranties in the case of modification of the computer programs (even if the modification has no negative effect on the use of the copy).

All these regulations have been drafted after heavy discussions. Much work had to be done to establish the present text of Article 2b. It also has to be mentioned that several concepts within the regulation are well-balanced and have to be welcomed (such as the provisions on warranties of authority and on damages). But the topics mentioned above demonstrate a dangerous tendency to discriminate non-US companies and customers. Although Article 2b claims to be applied throughout the world, the drafting committee has not taken any notice of the legal developments outside the US.[10] Apart from that, article 2b can be read in long passages as Bill Gates bible stressing uni-laterally the needs of US software and database industry. Fortunately, the present text is only a draft which is still under debate. It has been estimated that the

[10] See Marcus G. Larson, Applying Uniform Sales Law to international software transactions: the use of the CISG, ist shortcomings, and a comparative look at how the propsed UCC article 2b would remedy them, 5 Tul. J. Int´l & Comp. L 445 (1997).

final text will be published in the year 2000 and that until that date, there are a lot of changes necessary. But in spite of this time perspective, a more general question has to be taken into consideration: Is the information society really an object for codifications? Can the complexity of the postmodern digital world be regulated by statutes? Perhaps Savigny will get a late victory over Thibaut in a fast-moving period charaterized by new property rights which cannot be classified and governed by the Roman law concept of persona versus res. A clear sign for the defeat of the traditional regulation theory are the problems in drafting Article 2b. These problems have to be regarded as being similar to some recent controversies in Europe. There, the proposed EU directive on legal aspects of electronic commerce[11] and the idea of a German law professor to construct an overall codification on information law[12] can be regarded as the European versions of the tower of Babel. All these different information law ruins demonstrate that the static structure of codification is not aple to cope with the dynamic, multiplex variety of information rights and products. The object of regulation, information, is unclear. The players in the information market are too expansive, too divergent, too colourful. The claim of a statute to be valid for an unlimited time is incompatible with the explosive changes in the information industry. Therefore, I like the idea of Lawrence Lessig[13] that common law corresponds to cyberspace: AWhat recommends it is the process that it offers, with its partial answers, to repeated if slightly varied questions, in a range of contexts with a world of different talent and ideals.[14] To prause the inefficiency of common law might help to slow the regulation of cyberspace down, to make the breathless advocates of codifications quieter, to get many people to say what information law should mean, Aeach after the other, in a temporally spaced dialogue of cases and jurisdictions[15].

---

11 The text has informally been distributed to a small range of persons. The final version will be quoted in the galley-proofs.

12 This idea which has been proposed at the German Law Conference in Bremen has caused a lot of discussions.

13 Lawrence Lessig, The path of cyberlaw, 104 Yale L.J. 1743 (1995).

14 Lessig, ibid., p. 1744.

15 Lessig, ibid., p. 1744.