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Column

Legislative Inaction on the Information Superhighway: Bargaining in
the Shadow of Copyright Law

Maureen A. O'Rourke

Legislative Inaction on the Information Superhighway: Bargaining in the Shadow of Copyright Law[†]

Maureen A. O'Rourke¹

1. As a practical matter, the development of law in the form of enacted legislation often does not keep pace with societal change. At first glance, this fact seems somewhat disturbing since the law, according to some philosophies, should reflect social consensus. However, this is neither remarkable nor cause for concern. The law's processes are deliberative, involving time-consuming public testimony and debate. Thus, the law often plays "catch-up" with social change. This reactive rather than pro-active decision-making is generally desirable as the law is likely to change to reflect well-considered social judgments rather than passing social fancies. This column briefly examines one area of the law -- copyright in digital data -- in which legislative change has been particularly slow, discusses why such change has been slow, and considers the implications of the lack of congressional action in this area for the judiciary and private parties.

2. In the area of electronic communications, the law has lagged behind technological developments for some time. This time lag itself is not a matter for concern. Electronic technology changes quickly and the law, as an institutional matter, simply cannot change as fast. Moreover, because new technology has revolutionized communications, it has been appropriate for the law to wait until the technology evolves to a state at which lawmakers can both understand it and apply consistent legal principles to the issues it raises. Hastily conceived legal adjustments are particularly inadvisable in the technological arena for the practical reason that even "bad" laws, once enacted, are hard to undo.

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3. In keeping with a deliberative approach to legislation, the Clinton Administration has attempted to craft carefully its technology policy.² It established the National Information Infrastructure (“NII”) Task Force to study the intellectual property system -- particularly copyright law -- and to make recommendations for legislative change.³ The Administration sought to enhance the accessibility of the NII and the quality of data available on it. After two years of public hearings and public comments, the NII Task Force issued its 1995 White Paper: “Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights.” The White Paper comments on a variety of topics and suggests changes to the copyright laws to further the Administration’s goals.⁴ Shortly after the White Paper’s issuance, both the Senate and House introduced legislation to enact its suggestions.⁵ Since that time, both bills have stalled as parties with diverse agendas squabble over the advisability of particular provisions.

4. One of the most contentious issues preventing the legislation’s passage is one on which both bills as originally drafted were silent. Both online service providers (“OSPs”) and Internet access providers (“IAPs”) have been seeking explicit provisions in the bills which would exempt them from liability for the copyright infringement of their subscribers.

5. Current law on this issue is based on an extension of longstanding judicial interpretations of the Copyright Act⁶ in the hard copy world to the electronic arena. Taken together, the *Sega Enterprises Ltd. v. MAPHIA*⁷ and *Playboy Enterprises, Inc. v. Frena*⁸ cases suggest that a bulletin board system operator (“BBS”) may be held

² See Exec. Order No. 12,864, 3 C.F.R. § 634 (1993), reprinted in 15 U.S.C. § 1512 (1994).

³ See Intellectual Property, Information Policy, 46 PAT., TRADEMARK & COPYRIGHT J. (BNA) 449 (1993).

⁴ INFORMATION INFRASTRUCTURE TASK FORCE, WORKING GROUP ON INTELLECTUAL PROPERTY RIGHTS, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE (Sept. 1995) (commonly referred to as the White Paper because of the white paper with which the report was bound, which distinguished it from the preliminary draft that had been bound in green paper).

⁵ See H.R. 2441 and S. 1284, 104th Cong. (1995) (“National Information Infrastructure Copyright Protection Act”). The 104th Congress did not act on these bills and the 105th Congress has yet to introduce them.

⁶ 17 U.S.C. §§ 101-810, 1001-1010 (1994).

⁷ 857 F. Supp. 679, 686-87 (N.D. Cal. 1994).

⁸ 839 F. Supp. 1552, 1559 (M.D. Fla. 1993).

liable for the infringing conduct of its subscribers even where it is unaware of the infringement. These cases are consistent with traditional copyright law holding distributors liable where the goods they sell infringe a copyright even though the distributors themselves may not know, or even have a reasonable opportunity to know, of the infringement.⁹

6. However, in *Religious Technology Center v. Netcom On-line Communication Services, Inc.*, the court held that an IAP is not directly liable for copyright infringement where it merely installs and maintains the system which automatically forwards messages received from subscribers.¹⁰ The court based its holding on lack of causation: "Although copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party."¹¹

7. It is difficult to reconcile *Sega* and *Frena* with the *Netcom* case. It is true that the IAP in *Netcom* did not know of or encourage the infringement, while the BBS operator in *Sega* actively encouraged infringement by urging subscribers to upload *Sega* games.¹² However, the BBS operator in *Frena* did not know of the infringement, provided services roughly similar to that of the *Netcom* BBS operator, and yet was held liable.¹³

8. Against this backdrop, OSPs and IAPs objected to the draft legislation because of what it did *not* provide -- a legal clarification of the conflicting caselaw that provided for an exemption or at least a limitation on liability of BBS operators for infringing conduct by subscribers. In part to address the concerns of OSPs and IAPs, the committees revised the bills to provide, inter alia, a safe harbor for service providers who, on request of the copyright owner, immediately remove or prevent access to allegedly infringing material.¹⁴

9. The fight between copyright owners and OSPs and IAPs continues, and may delay enactment of the proposed legislation. Despite this delay, and the legal uncertainty regarding system provider liability, the OSP industry continues to

⁹ See 2 PAUL GOLDSTEIN ET AL., COPYRIGHT § 9.4, at 9:16 (2d ed. 1996).

¹⁰ 907 F. Supp. 1361, 1368-70 (N.D. Cal. 1995).

¹¹ *Id.* at 1370.

¹² See *id.* at 1371. See also *Playboy Enters., Inc. v. Chuckleberry Publ'g, Inc.*, 939 F. Supp. 1032, 1039 (S.D.N.Y. 1996) (following the *Frena* court in finding defendant liable for copyright infringement because maintenance of a web page went beyond providing Internet access by offering defendant's product for sale).

¹³ *Netcom*, 907 F. Supp. at 1370-71.

¹⁴ See H.R. 2441, 104th Cong. § 1203(c)(4) (1995).

expand.¹⁵ This suggests that providers have adjusted their prices or terms of service to account for the legal risk that they will be held liable for copyright infringement.

10. In fact, many OSP contracts shift the cost of copyright infringement to the wrongdoer -- the subscriber who uploads infringing material.¹⁶ Standard terms provide for the OSP's right to terminate service if the subscriber uploads copyrighted material without the consent of the copyright owner.¹⁷ Additionally, subscribers agree to indemnify the OSP for losses arising from the subscribers' copyright infringement.¹⁸ These terms often accompany the software, are reproduced in the user manual, or are provided to the user electronically the first time the user loads the software.

11. In the wake of the *ProCD, Inc. v. Zeidenberg*¹⁹ case, standard form contracts and their indemnification provisions are likely to be enforceable. *ProCD* was the first case to uphold both the validity of a shrinkwrap-type contract and particular terms thereof in the consumer context.²⁰ *ProCD* distributed CD-ROMs containing telephone directory listings and search and retrieval software.²¹ *ProCD*'s license agreement was encoded on the CD-ROM, reproduced in the manual, and appeared on the screen each time the user ran the software.²² Many OSP's seek to bind the user to standard form contracts in a similar manner. To the extent that they currently take different contracting approaches, they may change their licensing practices to conform to *ProCD*'s to enhance the probability that their licenses will be upheld.

12. In *ProCD*, the particular contractual term upheld by the Seventh Circuit was a use restriction. The purchaser of the consumer version of *ProCD*'s product agreed not to use the data contained therein for commercial purposes.²³ The court

15 See Richard Bowers, *66.6 Million Online Households Worldwide by 2000*, NEWSBYTES, Nov. 19, 1996, available in 1996 WL 12027249.

16 See 907 F. Supp. at 1375-76 (exploring Netcom's contractual relationship with subscriber).

17 See *id.*

18 See *id.*

19 86 F.3d 1447 (7th Cir. 1996).

20 See *id.* at 1452 (describing three other cases dealing with shrinkwraps and contending that they do not directly address shrinkwrap enforceability or consumer transactions).

21 See *id.* at 1449.

22 See *id.* at 1450.

23 See *id.*

found the restriction to be reasonable under the circumstances. The court viewed the agreement to the use restriction as the price the consumer user paid for the benefit of an overall lower price for the software package.²⁴ Commercial users who were not bound by the use restriction paid much more for the product.²⁵

13. The standard OSP contractual prohibitions requiring subscribers not to upload copyrighted data without the consent of the copyright owner and to indemnify the OSP for any loss caused by breach of that provision are not directly comparable to the ProCD use restriction. The OSP provisions are at once more and less troublesome. They are more troublesome because the subscribers may be unwittingly exposing themselves to potentially large indemnification liability. However, given the fact that it is the subscriber's own wrongdoing that would implicate the indemnification provision, this allocation of the risk does not seem unreasonable. The provisions are less troublesome because they can be assessed strictly as a matter of contract law. They do not implicate the copyright preemption issues that the use restriction does.

14. There was a tenable argument that the ProCD use restriction, irrespective of its enforceability as a matter of contract law, should be preempted under copyright law.²⁶ It is a fundamental tenet of copyright law that facts are not afforded copyright protection.²⁷ However, compilations of facts may merit copyright protection if their selection and arrangement is sufficiently original.²⁸ In *ProCD*, the court treated the database of listings as uncopyrightable because it lacked originality.²⁹ The contractual use restriction, therefore, effectively functioned to give

²⁴ See *id.* at 1449-50 (noting that ProCD engaged in price discrimination, charging consumer users less than commercial users). The ProCD court stated:

ProCD . . . [sold] its database to the general public for personal use at a low price. . . . If ProCD had to recover all of its costs . . . by charging a single price . . . it would have to raise the price substantially. . . . If because of high elasticity of demand in the consumer segment of the market the only way to make a profit turned out to be a price attractive to commercial users alone, then all consumers would lose out. . . .

Id. at 1449. The court went on to note that for ProCD's price discrimination scheme to work, it had to prevent consumer users from reselling to commercial users and undercutting ProCD's own price. The use restriction effectively safeguarded the price discrimination scheme. See *id.* at 1450.

²⁵ See *id.* at 1449.

²⁶ See *id.* at 1453-55.

²⁷ See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 344-47 (1991).

²⁸ See *id.* at 347.

²⁹ *ProCD*, 86 F.3d at 1447 ("We may assume that this database cannot be copyrighted.").

ProCD greater rights than it had under copyright law and, by extension, the consumer user fewer rights than it would have had if the contract had not modified the terms of the Copyright Act.

15. The copyright preemption issue, while not critical to information conduits like OSPs and IAPs, is of paramount concern to both software and database providers. These vendors often attempt to modify through contract the copyright rights that would otherwise apply. For example, software providers often include contractual terms prohibiting decompilation, while the Copyright Act grants limited decompilation rights to users as part of their statutory fair use rights.³⁰ Database providers, like ProCD, often include contractual terms requiring users to treat data as if it were copyrighted, when in fact it may not be copyrightable subject matter.

16. There is substantial academic literature discussing the preemption of particular contractual provisions that modify the copyright rights otherwise applicable to software.³¹ There is much less written on the question of whether or not private parties can contract to create their own "private" copyright-type rights to apply to data -- such as ProCD's factual compilation -- that is not protected by the Copyright Act without fear of preemption. *ProCD* suggests that they can.

17. The *ProCD* court stopped short of adopting a per se rule that all contracts will survive a copyright preemption analysis.³² However, it did state that generally contracts should withstand a preemption challenge since they create only rights

³⁰ See *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1520 (9th Cir. 1992) (interpreting section 107 of the Act to permit decompilation under certain circumstances); *accord* *Atari Games Corp. v. Nintendo of Am., Inc.*, 975 F.2d 832, 843 (Fed. Cir. 1992).

³¹ See, e.g., I. Trotter Hardy, *Essay: Contracts, Copyright, and Preemption in a Digital World*, 1 RICH. J.L. & TECH. 2 (1995) (arguing that without changes to copyright law, parties will find it increasingly necessary to rely on private contract to protect their rights); Mark Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. CAL. L. REV. 1239 (1995) (suggesting modifications in the Uniform Commercial Code to address conflicting intellectual property and freedom of contract interests); Michael Liberman, *Overreaching Provisions in Software License Agreements*, 1 RICH. J.L. & TECH. 4 (1995) (focusing primarily on the contractual protection of the intellectual property rights of the licensor, limitations on such protectionism posed by federal copyright law, and instances where the license agreement may be unenforceable due to overreaching); Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479 (1995) (arguing that fair use rights should be alienable and exploring factors that should be considered in deciding whether circumstances exist in which these otherwise alienable fair use rights should be held inalienable, preempting contractual provisions to the contrary); David A. Rice, *Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering*, 53 U. PITT. L. REV. 543 (1992) (showing that it is critical to understand how federal patent and copyright law independently and differently limit state creation of rights in intellectual property).

³² 86 F.3d at 1455 ("[W]e think it prudent to refrain from adopting a rule that anything with the label "contract" is necessarily outside the preemption clause.").

between the contracting parties, not copyright-type rights against the world.³³ The *ProCD* decision then offers some level of certainty to vendors that the standard form contracts they employ will be enforceable even as to those terms which modify federal copyright law.

18. This may help to explain the legislative inaction with respect to H.R. 3531.³⁴ While H.R. 3531 is not based on recommendations by the NII Task Force, it does deal with the information superhighway from the perspective of database providers. The bill would create a new form of protection for databases by statute.³⁵ The impetus for the bill was, in part, the perceived inadequacies of current judicial interpretations of the Copyright Act that deny copyright protection to factual compilations lacking in originality. One of the objectives of the bill is to encourage investment in assembling databases by ensuring that the database owner receives a return on its investment under the new statutory scheme since it may not receive that return under the Copyright Act. However, to the extent that database providers are able to create rights through the mechanism of private contract, their perceived need for the legislation declines. The *ProCD* preemption holding then may lessen the urgency with which database providers seek a new form of statutory protection.

19. Thus, the ability of electronic information providers to contract effectively with their customers may be partly responsible for the relative lack of speed with which Congress has addressed statutory changes to regulate electronic information. To the extent that electronic information providers remain free to enter into agreements with their customers that create "custom copyright," their incentive to lobby for legislative change is reduced.

20. This does not compel the conclusion that legislative delay in this area is desirable. The judiciary has been forced to adapt copyright and contract doctrine from the hard copy world into the soft copy one without congressional guidance. Congressional inaction has largely delegated policy decisions, including how to balance competing interests, to the courts. Yet the courts do not conduct public hearings or listen to public testimony in the same way that Congress does. Nor are the courts accountable to the electorate in the same manner. While the NII Task Force was a good starting place for pointing Congress to issues of concern, its momentum has largely been lost.

³³ See *id.* at 1454 ("A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create exclusive rights [and therefore do not create rights equivalent to any of the exclusive copyright rights].").

³⁴ H.R. 3531, 104th Cong. (1996) ("Database Investment and Intellectual Property Antipiracy Act of 1996").

³⁵ See *id.*

21. Moreover, while the *ProCD* decision may make it less critical for software and database providers to press for legislative action, the user community still has a stake in having its voice heard. It is not at all clear that users are in favor of enforcing standard form contracts that modify the copyright rights to which they are accustomed in a hard copy context. While it is true that extensive hearings were conducted both before and after the issuance of the NII White Paper, *ProCD* raises new issues that should be fully aired as a part of any comprehensive revision of the Copyright Act to deal with electronic information.

22. Thus, while legislative inaction did not seem particularly troublesome even in the relatively recent past, the time has come for a full airing of the issues involved in the development of an information based economy. Those issues include the question of how copyright law should be applied in this new forum, and how copyright and contract fit together. In the absence of legislative deliberation, private parties will continue to render the Copyright Act largely irrelevant in the electronic medium by contracting around it. At the same time, the judiciary will substitute for the legislature in stretching old concepts to deal with new questions.

23. This does not suggest that parties should have no ability to contract around the Copyright Act. However, since Congress has specific legislative goals that it intended to achieve through the Copyright Act, it should at least consider the impact that contracting around the Copyright Act has on those goals. At the end of the day, Congress may make no change in the law, but at least that inaction will represent a considered legislative response rather than an abdication of legislative duties.