

Chapter Six

Overseas Examples

6.01 So far as the Committee is aware, this is the first inquiry in the world to undertake an in-depth examination of the relationship between contract and the copyright exceptions. However, it is also aware that other jurisdictions have been grappling with related issues. The Committee therefore considers it appropriate to examine the approaches adopted elsewhere and to see whether they provide any guidance for the Committee in considering what should be done about contracts that purport to exclude or modify the copyright exceptions. To this end, Part I of this Chapter will look at the European Union and Part II will survey developments in the United States.

Part I: Europe

6.02 The European Union (EU) is brought together under a number of treaties which are the primary source of EU law.⁷⁹¹ The European Community (EC) is described as one of the pillars of the EU.⁷⁹² It is based on the establishment of a single market and it is within the EC that the regulation of European trade, and more particularly, intellectual property rights, occurs. The Committee considers it significant that the source of EC legislative power in relation to copyright is the establishment of a single market, rather than a specific copyright power, as this may mean that EC law is less concerned with the traditional copyright balance and more concerned with trade-related issues. The institutions of the EC have the power to draw up secondary laws in the form of regulations and directives which Member States are bound to implement. What is particularly interesting about many EC directives, from an Australian perspective, is their attempt to reconcile the legal regimes of civil law members such as France and Germany with the common law tradition of the United

⁷⁹¹ Treaty of Paris (1951), Treaty of Rome (1957), Treaty of Maastricht (1992), Treaty of Amsterdam (1997), and Treaty of Nice (2001).

⁷⁹² See, Borchardt K-D. *The ABC of Community Law*. European Documentation Series. 5th edn. Luxembourg: Office for Official Publications of the European Communities, 2000, 8.

Kingdom and Ireland. Perhaps because of difficulties associated with this process, implementation of directives is left to the national legislature of each Member State.

6.03 There is a range of European law that touches upon the matters with which the Committee is concerned in this reference.⁷⁹³ Some of these laws have been influential on the development of Australian copyright law. For example, as was discussed in Chapter 5, the Computer Programs Directive⁷⁹⁴ provided the model for s. 47H of the Copyright Act. The Committee therefore examined whether there is scope for Australia to learn from developments in EU law over the last decade.

6.04 European law makes a number of exceptions to copyright and related rights mandatory for its Member States. For example, Art. 9(1) of the Computer Programs Directive provides that ‘any contractual provision contrary to Art. 6 or to the exceptions provided for in Art. 5(2) and 5(3) shall be null and void’. Article 5(2) provides that ‘[t]he making of a back-up copy by a person having the right to use the computer program may not be prevented by contract insofar as it is necessary for that use’. Article 5(3) provides that ‘[t]he person having a right to use a copy of the computer programs shall be entitled, without the authorization of the rightholder, to observe, study or test the functioning of the program in order to determine the ideas and principles which underlie any element of the program if he does so while performing any of the acts of loading, displaying, running, transmitting or storing the program which he is entitled to do’.

6.05 Article 6 of the Computer Programs Directive provides that:

‘1. [T]he authorization of the rightholder shall not be required where reproduction of the code and translation of its form within the meaning of Article 4(a) and (b) are indispensable to obtain information necessary to achieve the interoperability of an independently created computer program with other programs, provided that the following conditions are met:

(a) these acts are performed by the licensee or by another person having a right to use a copy of a program, or on their behalf by a person authorized to do so;

(b) the information necessary to achieve interoperability has not previously been readily available to the persons referred to in subparagraph (a); and

⁷⁹³ Some laws, while relevant, are not specifically discussed here. See, eg, Directive 92/100/EEC of 19 November 1992 on rental rights and lending rights and certain related rights to copyright in the field of intellectual property.

⁷⁹⁴ Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs.

(c) these acts are confined to the parts of the original program which are necessary to achieve interoperability.

2. The provisions of paragraph 1 shall not permit the information obtained through its application:

(a) to be used for goals other than to achieve the interoperability of the independently created computer program;

(b) to be given to others, except where necessary for the interoperability of the independently created computer programs; or

(c) to be used for the development, production or marketing, of a computer program substantially similar in expression, or for any other act which infringes copyright.

3. In accordance with the provisions of the Berne Convention for the Protection of Literary and Artistic Works, the provisions of this Article may not be interpreted in such a way as to allow its application to be used in a manner which unreasonably prejudices the rightholder's legitimate interests or conflicts with a normal exploitation of the computer program.'

The Computer Programs Directive also contains an optional exception in Art. 5(1) in relation to use of a computer program by the lawful acquirer in accordance with its intended purpose, including error correction.

6.06 The mandatory provisions in the Computer Programs Directive have been explained by the then head of the European Commission's Copyright Unit as follows:

'Obviously it makes no sense to give the user the freedom under the Directive to perform certain acts without authorisation if the rightholder can immediately retrieve control by contractual means. This implies that contractual control in Europe might be less effective than in the United States or Japan from the rightholder's point of view. However, given the fact that licensing is often the only means by which the user can obtain software, the Commission and the Council have found it appropriate to limit the parties' freedom of contracts in certain ways.'⁷⁹⁵

6.07 Guibault observes that these comments suggest that 'aside from the growing practice of licensing computer programs to users, no significant contractual practice concerning the use of other copyrighted material had developed at that time to justify a clarification as to the imperative character of other limitations'.⁷⁹⁶ She goes on to argue that that is no longer the case. The Committee's findings in Chapter 4 of this Report support this argument.

⁷⁹⁵ Verstrynge J-F. Protecting intellectual property rights within the new pan-European framework: the case of computer software. *Droit de l'informatique & télécoms* 1992;2:6-12, 12. Cited in Guibault, 2002, op.cit., p. 215.

⁷⁹⁶ *ibid.*, p. 216.

6.08 In addition to the provisions discussed above, Art. 15 of Directive 96/9/EC of the European Parliament and the Council of 11 March 1996 on the legal protection of databases (the Database Directive) deems any contractual provision contrary to Arts. 6(1) and 8 null and void. Article 6(1) provides:

‘The performance by the lawful user of a database or a copy thereof of any of the acts listed in Article 5 which is necessary for the purposes of access to the contents of the database and normal use of the contents by the lawful user shall not require the authorization of the author of the database. Where the lawful user is authorized to use only part of the database, this provision shall apply only to that part.’

Article 6(2) provides for a number of optional limitations to the exclusive rights of the owner of the database.

6.09 Article 8 deals with the rights and obligations of all lawful users. Article 8 provides that:

‘1. The maker of a database which is made available to the public in whatever manner may not prevent a lawful user of the database from extracting and/or re-utilizing insubstantial parts of its contents, evaluated qualitatively and/or quantitatively, for any purposes whatsoever. Where the lawful user is authorized to extract and/or re-utilize only part of the database, this paragraph shall only apply to that part.

2. A lawful user of a database which is made available to the public in whatever manner may not perform acts which conflict with normal exploitation of the database or unreasonably prejudice the legitimate interests of the maker of the database.

3. A lawful user of a database which is made available to the public in any manner may not cause prejudice to the holder of a copyright or related right in respect of the works or subject matter contained in the database.’

6.10 Guibault surveys the different ways that Member States have implemented these two Directives. Interestingly, she notes that Belgium has made almost all statutory limitations on copyright mandatory. ‘The act of 1998 implementing the Database Directive not only introduced in Belgian law all *mandatory* and *optional* limitations in favour of the lawful *user* of a database that were permitted under the Directive, but it also proclaimed the mandatory character of most other limitations included in the Copyright Act.’ Guibault also notes that ‘[s]urprisingly few comments have been made so far on this important legislative modification, other than to say that it will

certainly have a considerable impact in practice where rights owners used to set the statutory limitations aside'.⁷⁹⁷

6.11 The Copyright Directive⁷⁹⁸ is the latest addition to EU copyright law. The Directive has the goal of harmonising European copyright law and ensuring compliance with the major obligations of the WIPO Internet Treaties. It is described as adjusting and complementing 'the existing Community framework on copyright and related rights to respond to the new challenges of technology, to the benefit of both right-holders and users'.⁷⁹⁹ While the Copyright Directive provides for a mandatory exception in relation to temporary and incidental reproductions which have no independent economic significance, it has taken a different approach to the interaction of technological protection measures and the copyright exceptions. The Committee wishes to focus much of its discussion in this Part on the Copyright Directive in order to address the issue of whether a similar approach should be adopted in Australia. As a background to this discussion, EU legislative procedure is described in Appendix G.

The Copyright Directive

6.12 The Copyright Directive obliges Member States to provide for three exclusive rights. The first is the exclusive right of reproduction, which allows the right holder to 'authorise or prohibit direct or indirect, temporary or permanent reproduction by any means and in any form, in whole or in part' (Art. 2).

6.13 The second right, the exclusive right of communication to the public, is given a technology-neutral definition and includes communications in which the public may access the material 'from a place and at a time individually chosen by them' (this would cover, for instance, Internet access). The right of communication to the public is not subject to exhaustion. This means that both the initial act of

⁷⁹⁷ *ibid.*, p. 219.

⁷⁹⁸ Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society.

⁷⁹⁹ Communication from the Commission to the European Parliament pursuant to the second subparagraph of Article 231(2) of the EC Treaty concerning the common position of the Council on the adoption of a Directive of the European Parliament and of the Council on the harmonisation of certain aspects of copyright and related rights in the information society EU SEC (2000) 1734, p. 2.

communication and each subsequent act will be subject to the right holder's control (Art. 3). The Committee observes that the language of this provision is drawn from the Internet Treaties.

6.14 Finally, the exclusive right of distribution to the public governs hard copies of material (as opposed to the right of communication to the public). It is exhausted within the Community after the first sale by the right holder (Art. 4).

6.15 The Directive then exhaustively lists all the exceptions and limitations to the three rights above which a Member State must or may make (Art. 5). As previously mentioned, the technical reproduction exception is mandatory. Article 5(1) provides:

'Temporary acts of reproduction referred to in Article 2, which are transient or incidental, which are an integral and essential part of a technological process, whose sole purpose is to enable:

- a) a transmission in a network between third parties by an intermediary; or
- b) a lawful use of a work or other subject-matter to be made, and which have no independent economic significance, shall be exempted from the reproduction right provided for in Article 2.'

This provision is read together with Art. 5(5) which sets out the 3-step test:

'The exceptions and limitations provided for in paragraphs 1, 2, 3 and 4 shall only be applied in certain special cases which do not conflict with the normal exploitation of the work or the subject-matter and do not unreasonably prejudice the legitimate interests of the rightholder.'

Member States may provide for the remaining listed exceptions at their own discretion, but cannot provide for any additional exceptions.

6.16 Article 5(2) provides for specified acts of reproduction. For example, reproduction may be permitted if right holders receive fair compensation, and the reproduction is:

- by photocopying-type technology and is in hard-copy format (Art. 5(2)(a));
- private and non-commercial (Art. 5(2)(b)); or
- of a broadcast and by a non-commercial social institutions (Art. 5(2)(e)).

6.17 In relation to the exception provided for in Art. 5(2)(b) the Committee notes that it is common for civil law countries to allow private copying. In her book,

Guibault traces the evolution of this exception.⁸⁰⁰ She explains that the prevailing view in continental Europe prior to the 1950s was that copying that took place in the private sphere lay outside the scope of copyright. This view was based on notions of an individual's right to privacy. Guibault describes how this paradigm shifted with the development of new technologies such as photocopiers and tape recorders and that many countries introduced private copying provisions requiring fair compensation to be paid to the right holder. It has been argued that this development was based not so much on notions of privacy but on pragmatism; ie, the inability of copyright owners to monitor what goes on in people's homes. Insofar as this exception is based on the latter rationale, some have queried its continuing relevance in the digital environment. This is because digital technology now makes it possible to monitor what people do in their own homes.⁸⁰¹

6.18 The Committee observes that there is no private copying provision in the UK or Ireland. Nor does Australia have a private copying exception, except as it applies to the copying of live broadcasts in s. 111.⁸⁰² The Committee considers this as significant as it may indicate a difference in the understanding of the exceptions in civil law countries and in common law countries such as Australia. The Committee is aware that the Government has received representations from lobby groups in recent times in relation to the introduction of a private copying levy. It is also aware that the 2003 Congress of the Association Littéraire et Artistique Internationale (ALAI) is to focus on this issue.⁸⁰³

6.19 Non-commercial reproduction may also be permitted for libraries, educational establishments, museums, archives or broadcasting archives without compensation (Arts. 5(2)(c) and (d)).

⁸⁰⁰ Guibault, 2002, op. cit., pp. 48–52.

⁸⁰¹ Bently and Burrell critique the approach of the European Commission in this regard. See, Bently and Burrell. Copyright and the information society in Europe: a matter of timing as well as content. CML Rev:1997;34:1197–227, 1219–21.

⁸⁰² Australia did introduce a private copying exception coupled with a blank tape royalty scheme in the *Copyright Amendment Act 1989*. However in 1993 this scheme was struck down by a majority of the High Court in *Australian Tape Manufacturers Association Ltd and Others v Commonwealth* (1993) 176 CLR 480. This was because the 'royalty' imposed by Part VC was held to be a tax and thus the legislation contravened s. 55 of the Constitution as it dealt with matters other than the imposition of a tax.

⁸⁰³ See, preliminary draft of a paper for the 2003 Congress: Dreier T. Study of legislation on private copying: existing legislative solutions and proposals for future development. <<http://www.copyright.asn.au/PrivateCopyingOutline.pdf>>.

6.20 Article 5(3) deals with exceptions to the rights of reproduction, communication and distribution. While originally drafted as a relatively confined provision, the Committee observes that the decision to provide a closed list of exceptions means that Art. 5(3) has ended up as a ‘shopping list’ of all remaining exceptions provided for by the national laws of Member States. Sub-paragraphs (a)-(o) of Art. 5(3) provide optional exceptions for:

- teaching, scientific research, and certain other private study purposes;
- the benefit of people with a disability;
- certain purposes relating to the dissemination of news, political speeches and public lectures;
- criticism, review, caricature, parody and pastiche;
- certain Governmental, judicial, ceremonial and public security purposes;
- advertising an artistic work or publicly displaying a piece of architecture or sculpture;
- demonstrating and repairing equipment or reconstructing a building;
- incidental inclusion in other material; and
- certain other pre-existing non-digital uses which do not unreasonably prejudice the interests of the right holder.

6.21 Article 6 obliges Member States to provide adequate legal protection against circumvention of effective technological (protection) measures. Article 6(1) prohibits the act of circumvention, if carried out knowingly or with reasonable grounds to know. Article 6(2) prohibits the various acts associated with dealing in circumvention devices or services (eg, manufacture, importation, sale, rental, advertisement for sale or rental, or possession for commercial purposes of devices, components, or the provision of certain services).

6.22 A ‘technological measure’ is defined in Art. 6(3) as:

‘[A]ny technology, device or component that, in the normal course of its operation, is designed to prevent or restrict acts, in respect of works and other subject-matter, which are not authorised by the rightholder of any copyright or any right related to copyright as provided for by law for the sui generis right provided for in Chapter III of Directive 96/9/EC. Technological measures shall be deemed “effective” where the use of a protected work or other subject-matter is controlled by the rightholders in the application of an access control or protection process, such as

encryption, scrambling or other transformation of the work or other subject-matter or a copy control mechanism, which achieves the protection objective.’

6.23 As will be seen from the discussion below, the definition of a technological measure as a system that prevents acts not authorised by the right holder was extremely controversial as it restricts the operation of the exceptions.

6.24 Article 6(4) was possibly the most contentious provision of the copyright directive. It has four sub-paragraphs which are set out below.

‘Notwithstanding the legal protection provided for in paragraph 1, in the absence of voluntary measures taken by rightholders, including agreements between rightholders and other parties concerned, Member States shall take appropriate measures to ensure that rightholders make available to the beneficiary of an exception or limitation provided for in national law in accordance with Article 5(2)(a), (2)(c), (2)(d), (2)(e), (3)(a), (3)(b) or (3)(e) the means of benefiting from that exception or limitation, to the extent necessary to benefit from the exceptional limitation and where the beneficiary has legal access to the protected work or subject-matter concerned.

A Member State may also take such measures in respect of a beneficiary of an exception or limitation provided for in accordance with Article 5(2)(b), unless reproduction for private use has already been made possible by the rightholders to the extent necessary to benefit from the exception or limitation concerned and in accordance with the provisions of Article 5(2)(b) and (5), without preventing rightholders from adopting adequate measures regarding the number of reproductions in accordance with these provisions.

The technological measures applied voluntarily by rightholders, including those applied in implementation of voluntary agreements, and technological measures applied in implementation of the measures taken by Member States, shall enjoy the legal protection provided for in paragraph 1.

The provisions of the first and second subparagraphs shall not apply to works or other subject-matter made available to the public on agreed contractual terms in such a way that members of the public may access them from a place and at a time individually chosen by them.’

6.25 As can be seen, the first sub-paragraph provides that right holders must make available the means to circumvent such technological measures to those entitled to the material under one of the following seven exceptions: reprographic reproductions (5(2)(a)), non-commercial reproduction by cultural institutions (5(2)(c)), non-commercial reproduction by a broadcasting archive (5(2)(d)), non-commercial reproduction of a broadcast by a social institution (eg, prison, hospital) (5(2)(e)), reproduction, communication or distribution for the purpose of illustration for

teaching or scientific purposes (5(3)(a)), for the purpose of use for the benefit of people with a disability (5(3)(b)) or for the purpose of public security (5(3)(e)).

6.26 While the Committee notes that the private copying exception in Art. 5(2)(b) is excluded from the operation of the first sub-paragraph, the second sub-paragraph provides a limited and discretionary provision in relation to the obligation of Member States to ensure that people can exercise the private copying exception in relation to material that has been technologically locked.

6.27 The Committee observes that the fact that Member States are given a particular obligation to ensure that people can exercise these eight optional exceptions, in circumstances where a technological measure is in place, indicates that these provisions were considered somehow more vital than the remaining optional exceptions. This obligation, is however, subject to the next sub-paragraph of Art. 6(4).

6.28 The most controversial aspect of Art. 6(4) is the next sub-paragraph which, as noted in para. 6.24, provides: '[t]he provisions of the first and second subparagraphs shall not apply to works or other subject-matter made available to the public on agreed contractual terms in such a way that members of the public may access them from a place and at a time individually chosen by them'. The Committee notes that this provision repeats the language of the communication right in Art. 3. What it appears to mean is that contracts entered into over the Internet may prevail over the copyright exceptions and, in such contracts, there is no obligation to allow users to exercise the eight optional exceptions. The Committee notes that where Art. 6 is applied in the context of the Computer Programs and the Database directives, Art. 6(4) applies *mutatis mutandis*.

6.29 Article 7 deals with rights management information as required by the Internet Treaties.

6.30 Article 8 ensures that appropriate remedies for infringements will be accessible throughout the EU, and that injunctions are available to prevent further infringements.

6.31 Article 9 provides that the Directive is without prejudice to provisions concerning, amongst other things, the law of contract.

6.32 In an effort at understanding the rationale behind the more contentious provisions of the Copyright Directive the Committee now turns to look at how the Copyright Directive developed.

Development of the Copyright Directive

6.33 The Copyright Directive changed quite substantially from its original conception in the Commission's Green Paper of 1995 to the final instrument adopted by the Council and Parliament some six years later. The Green Paper sought to describe the Information Society and then dealt with specific issues raised by stakeholders.⁸⁰⁴ Notably, it did not deal with the question of copyright exceptions. The following year, the European Parliament passed a resolution on the Green Paper.⁸⁰⁵ It took the view that it was 'necessary constantly to seek a correct balance between the protection of intellectual property and the general interest in such a way as to promote, as far as possible, citizens' rights to access to all information as a fundamental democratic right'.⁸⁰⁶ It also called 'on the institutions of the European Union and the Member States to take appropriate measures to enable citizens to have equal access to works and services deemed to be of 'public interest' and considered it 'important with reference to public libraries and services of public interest in general, to guarantee the application of specific standards, by analogy with those applying to books, in order to promote maximum dissemination for cultural and scientific purposes and to take account of the public service role of the establishments concerned'.⁸⁰⁷ Nevertheless, the Parliament reminded the Commission of the principle that it is up to the author and holder of the related rights to decide whether, and on what terms, to allow their works to be exploited on the basis of contractual licences.⁸⁰⁸ Shortly thereafter, the Commission published a follow-up communication.⁸⁰⁹ The Committee notes that this all took place prior to the WIPO Diplomatic Conference of 1996 at which the

⁸⁰⁴ COM (95) 0382-C40354/95.

⁸⁰⁵ EP A4-0235/96 OJ C320/177 22/10/1996.

⁸⁰⁶ *ibid.*, Resolution 11.

⁸⁰⁷ *ibid.*, Resolutions 12 and 13.

⁸⁰⁸ *ibid.*, Resolution 20.

⁸⁰⁹ COM 1996 568 final.

WCT and the WPPT were adopted. Hence, the work done up until this time focused on a European understanding of the Information Society. After December 1996, work on the Copyright Directive was undertaken with a second purpose in mind: implementation of the Internet Treaties.

6.34 In January 1998, after a lengthy process of consultation, the Commission presented a proposal for a European Parliament and Council Directive on the harmonisation of certain aspects of copyright and related rights in the information society.⁸¹⁰ The Explanatory Memorandum to the Proposal acknowledges the multiplicity of exceptions applying in the Member States. In describing Art. 5, which set out the exceptions to the exclusive rights, it states:

‘The provision aims at striking a balance between, on the one hand, providing the strongest possible incentives to encourage the creation of original works and other protected subject matter and, on the other, facilitating the dissemination of such works to users. It is based on a re-assessment in the light of the new technological developments since their economic impact may be quite different compared to the traditional environment. In such cases, exceptions and limitations must be construed in a more narrow way by the Community legislators as well as by the Member State applying the exceptions, in order to protect economic damage to the market of protected works and other subject matter.’⁸¹¹

6.35 The Proposal approached the issue of harmonisation by setting out an exhaustive list of permitted exceptions in Art. 5. Article 5(1) contained a mandatory exception to the right of reproduction for certain technical processes similar to the Computer Programs Directive and the Database Directive, Art. 5(2) contained three optional exceptions to the reproduction right and Art. 5(3) listed a range of exceptions to the rights of reproduction and communication permitted under the Proposal providing they complied with the 3-step test. Article 6 of the Proposal set out the basic obligations with respect to technological measures.⁸¹² The Committee observes that the definition of ‘technological measures’ in Art. 6(2), which was confined to measures designed to prevent or inhibit infringements, demonstrated the Commission’s view that activities covered by any of the exceptions should prevail over technological protection measures.⁸¹³ The Committee notes that at the time, the Proposal was

⁸¹⁰ CE (1997) OJ C108, 07/04/1998 006.

⁸¹¹ *ibid.*, pp. 21–2.

⁸¹² Amendments 34 and 36.

⁸¹³ See further, paragraph 43 of Statement of Reasons for Common Position, OJ2000 C344/19.

criticised by some commentators who argued that ‘the rapid change in technology does not demand an equally hasty legislative response’.⁸¹⁴

6.36 In September 1998, the Economic and Social Committee presented its Opinion on the Proposal⁸¹⁵ and on 10 February 1999, the Proposal was approved at a first reading by Parliament with substantial amendments to Art. 5.⁸¹⁶ While these amendments included the expansion of the exception in Art. 5(3)(b) to all people with disabilities, the introduction of an exception for audio-visual copying for private use provided fair compensation was paid in Art. 5(2)(ba),⁸¹⁷ and the addition of a new ‘catch all’ exception in Art. 5(3a),⁸¹⁸ the Committee observes that, for the most part, they had the effect of confining the exceptions.⁸¹⁹ Perhaps most significantly for the Committee’s purposes, the definition of technical measures was amended to extend to all acts not authorised by the owner and Art. 5(4) was amended to include the following statement:

‘These exceptions and limitations must not prevent the use of technical means to protect works with the aim of safeguarding the interests of the rightholders, nor prejudice the protection of these means as referred to in Art. 6.’⁸²⁰

⁸¹⁴ See, Bently and Burrell *op. cit.*, p. 1226.

⁸¹⁵ CES (1998) 1122 OJ C 407 20/12/1998.

⁸¹⁶ PE R5-0026/ 1999 OJ C 150 28/5/1999 004.

⁸¹⁷ Amendment 37.

⁸¹⁸ Amendment 46.

⁸¹⁹ For example, the reference to ‘temporary’ in Art. 5(1) was replaced by ‘transient and incidental’. Significantly, Parliament also resolved that Art. 5(1) be qualified by the proviso that ‘[s]uch uses must be authorised by the rightholder or permitted by law and must have no economic significance for the rightholders’ (Amendment 33). Articles 5(2)(a) and (b) were made subject to the right holder receiving fair compensation (Amendments 34 and 36). In the case of Art. 5(2)(a) published musical works were expressly excluded (Amendment 34). Article 5(2)(c) was limited to reproductions for documentation or conservation purposes and examples were given of the kind of institution to which this exception would apply, namely ‘libraries and archives and other teaching, educational or cultural establishments’ (Amendment 38). Amendment 40 introduced a separate exception for the analogue use of works from newspapers and radio for news reporting. Proposed Art. 5(2)(cb) and Amendment 41 made the exception in Art. 5(3)(a) for illustration for teaching or scientific research conditional on the payment of fair compensation. The use of excerpts in conjunction with reporting of current events as provided for in Art. 5(3)(c) was qualified by the addition of the words ‘the objective of illustrating the events concerned’ (Amendment 43).

⁸²⁰ Amendment 47.

6.37 On 21 May 2000, in its Amended Proposal, the Commission adopted in whole or in part many of the amendments of Parliament.⁸²¹ It reinstated the concept of infringement of copyright in the definition of ‘technological measures’ in Art. 6(3). The Committee observes that, in this respect at least, there appears to have been an impasse between the views of Parliament and the Commission.

6.38 Commentators such as Heide criticised the Amended Proposal as lacking ‘appreciation of the potential of contractual provisions and technological protection measures being used to restrict the applicability of certain innovations providing limitations and exceptions as found under copyright law’.⁸²² While Heide acknowledged that Recital 21 referred to the need to safeguard a balance between different categories of right holders and users, he observed that this recital was ambiguous and could be applied to both the use of technological measures and contractual provisions.⁸²³ Similarly, Wing and Kirk argue:

‘The most likely consequence of this is that Article 6 and 7 of the draft directive on technical protection and protection for rights management information, together with E.U. proposals on conditional access services, will assume more importance, and because it is difficult (not to mention illegal under Art. 6) to exercise fair use on a 128 bit encrypted document information monopolies are likely to result. The E.U. may be creating for itself a lot of future problems with this legislation.

Either Article 5 of the Directive needs to be significantly expanded or the grounds made non exhaustive. There is no question of trying to force other Member States with different copyright traditions to introduce a fair use concept. More discretionary grounds could simply be introduced to take respect of national differences...As has been argued Article 10 of the WCT would seem to give a great deal more room for fair dealing than the E.U. would like to pretend.’⁸²⁴

⁸²¹ It did not accept the introduction in Art. 5(1) of the condition that the main act of use of a work should be authorised by the right holder or permitted by law. While the Commission stated that it shared Parliament’s concern to ensure that networks do not serve as vendors for the transmission of pirated content, it queried the appropriateness of the amendment. It was of the view that together with the exceptions it had accepted and Art. 8, there was a satisfactory balance between owners and users. Further, it did not accept the introduction of a new exception for broadcasters relating to the digital use of their archived productions on the basis that this arrangement disturbed the balance between the parties and might disadvantage creators. It also opposed the introduction of an exception for the analogue use of certain press works as that was taken up by Art. 5(3)(c). The Commission also rejected the specific mention in Art. 5(4) that exceptions do not prevent the use of technological protection measures on the ground that this was covered elsewhere: Amended Proposal for a European Council Directive on the harmonisation of certain aspects of copyright and related rights in the Information Society CE (1999) 0250 OJ C180/6, 25/6/1999, p. 3.

⁸²² Heide, 2000, *op. cit.*, p. 225.

⁸²³ This is reflected in Recital 31 of the final text.

⁸²⁴ Wing M and Kirk E. *European/U. S. copyright law reform: is a balance being achieved?* I.P.Q. 2000;2:138–63, 162.

The Amended Proposal was also heavily criticised by lobbyists.⁸²⁵

6.39 On 28 September 2000 the Council adopted its Common Position.⁸²⁶ The most significant aspect of the Common Position from the Committee's perspective and, it is observed, the most controversial, is the approach that the Council took in relation to technical measures in Art. 6. It adopted a much broader definition of protectable technological measures than the Commission. The Council described the 'terms "designed to prevent or restrict acts in respect of works or other subject matter, which are not authorised by the rightholder of any copyright" in the Council's definition as making it clear that Art. 6(1) protects against circumvention of all technological measures designed to prevent or restrict acts not authorised by the rightholder, regardless of whether the person performing the circumvention is a beneficiary of one of the exceptions under Article 5.' The Council's approach also involved building in safeguards for the legitimate interests of beneficiaries of some of the exceptions by adding Art. 6(4) and Recital 51 and 52, requiring Member States to promote the use of voluntary agreements to accommodate certain exceptions and, where necessary, to take measures to ensure that beneficiaries of those exceptions can benefit from them. However, under this formulation, agreed contractual terms for works or other subject matter made available to the public 'in such a way that members of that public may access them from a place and at a time individually chosen by them' prevail over the provisions of sub-paragraph 1 and 2 of Art. 6(4) (which set out

⁸²⁵ Doherty and Griffiths provide a convenient overview of some of the arguments made by lobbyists against the Amended Proposal. Doherty M and Griffiths I. *The harmonisation of European Union copyright law for the digital age*. E.I.P.R. 2000;22(1):17–23.

⁸²⁶ CSL 9512/1/2000 OJ (2000) C344/1 1/12/2000. It amended Art. 5(1) in order to 'strike a fair balance between the interests of rightholders and those of intermediaries' by making 'transient' and 'incidental' alternative rather than cumulative. It also added a definition of 'lawful use' in Recital 33 largely based on Parliament's amendment 33 (ie, 'authorised by the rightholder or not restricted by law'). It introduced a definition of 'fair compensation' in Recital 35 and specified that nothing prevented Member States from applying the condition of fair compensation to other exceptions (Recital 35). The Council rejected the distinction between analogue and digital private copying and therefore merged sub-paragraphs (b) and (ba) of Art. 5(2). It did, however acknowledge the need for such a distinction in certain instances in Recital 38 and 44. The Council rejected the restriction of the exception in Art. 5(2)(c) to documentation or conservation, preferring a more flexible formulation. However, it also preferred an exhaustive list of the relevant institutions to which the exception would apply, rather than the open list as put forward in the Amended Proposal. The Council also adopted a new provision in Art. 5(3)(o), allowing Member States to maintain pre-existing exceptions of minor importance providing they related to analogue use only and did not alter the free circulation of goods and services within the EC. The Council stated that this provision 'together with the additional exceptions in Article 5(3)(f) to (n) constitutes a reasonable compromise between the positions of those who would have preferred a completely open list of optional exceptions and those who would have preferred a much shorter list of purely mandatory exceptions': Common Position, Statement of the Council's Reasons, p. 17.

the safeguards described above). The Committee observes that this may have a drastic effect for the applicability of the exceptions in the e-marketplace.⁸²⁷

6.40 Hugenholtz has been extremely critical of the Directive in this regard. In noting the Directive's failure to deal with the interface between contract and copyright exceptions, he observes: '[t]his is particularly surprising in the light of Article 6.4. If technological measures are prone to undermine essential user freedoms, the same is true a *fortiori* for standard-form licences. Hence, the *acquis communautaire* of the Computer Programs Directive and Database Directives, both providing for mandatory user freedoms, has suddenly become irrelevant'.⁸²⁸

6.41 The Commission gave its opinion on 11 September 2000, fully agreeing with the Common Position. In doing so, it took the view that 'the solutions found in the Council to the difficult issues posed by Article 6 and in particular its relationship to Article 5 represent remarkable progress in the effort to ensure effective and adequate protection of rightholders while at the same time not neglecting the legitimate interest of beneficiaries of exceptions'.⁸²⁹

6.42 On 14 February 2001, during the second reading, the European Parliament made nine amendments to the Directive. The most significant of these amendments for present purposes was amendment 3, which added Recital 52 bis to assist in the interpretation of Art. 6(4) sub-paragraph 4. This became Recital 53 in the final text and provides:

'The protection of technological measures should ensure a secure environment for the provision of interactive on-demand services, in such a way that members of the public may access works or other subject matter from a place and at a time individually chosen by them. Where such services are governed by contractual arrangements, the first and second subparagraphs of Article 6(4) should not apply. Non-interactive forms of on-line use should remain subject to those provisions.'⁸³⁰

6.43 The Council adopted the Directive on 9 April 2001 and on 22 May 2001 it was adopted by the Parliament. It came into operation on 22 June 2001 and is due to be implemented by Member States by 22 December 2002. At the time of writing,

⁸²⁷ The Committee notes that similar issues have arisen in the context of the European Convention on the Legal Protection of Services based on, or consisting of, Conditional Access.

⁸²⁸ Hugenholtz B. Why the copyright directive is unimportant, and possibly invalid. E.I.P.R. 2000;11: 499–504, 501.

⁸²⁹ CE SEC 2000 1734.

⁸³⁰ PE R5 0077/2001 OJ C2701 1/10/2001 051 121.

the Netherlands had produced draft implementing legislation.⁸³¹ Other Member States are expected to publish draft legislation in the near future.⁸³²

6.44 While it is clear from an examination of the primary sources that the EU's understanding of the copyright balance in the digital environment was informed by a concern to protect right holders from the increased risk of infringement, it is not clear from any published material how the EU arrived at the final text of the Copyright Directive.

6.45 The Committee is aware that there was, and continues to be, strong opposition to many of the provisions in the Directive. For example, groups such as the European Fair Practice in Copyright Campaign (representing European consumer associations, libraries, archives and documentation centres, European disability NGOs, education, students, listeners and viewers and the consumer electronics industry) actively opposed provisions such as Art. 6(4).⁸³³ Further, recent efforts of the European Commission to bring stakeholders together by publishing a discussion paper and holding a DRMS workshop, indicate that acceptance of the Directive is not unanimous. The press release for the workshop notes: 'there are strongly divergent views among the different stakeholders on how to implement the DRMS and on the requirements necessary to make them acceptable to rightholders and consumers. This variety is threatening the prospects for the rapid availability of user-friendly DRMS, which in turn could have serious consequences for the supply of attractive online content, services and applications over the Internet.'

⁸³¹ The Official Advisory Copyright Committee provided advice to the Dutch Minister of Justice on the implementation of the Copyright Directive in July 2001. In that advice, the Copyright Committee stated: '[t]he implementation of Article 6 paragraph 4 of the Directive poses a particular problem. It provides for an obligation for the Member States to take appropriate measures to ensure that beneficiaries of an exemption or limitation are not denied the freedoms ensuing from statutory exemptions or limitations. The Committee therefore recommends the inclusion of a delegation provision that, subject to the conditions laid down in Article 6 paragraph 4, enables the legislature to take rapid and effective measures. The Committee furthermore suggests that the Minister of Justice periodically report to Parliament with respect to developments in the field covered by Article 6 paragraph 4'. Article 29(a)(4) of the draft legislation provides: 'In the public interest, rules and regulations shall be laid down by council in order obliging the author or his legal successor to make available to the user of a literary, scientific or artistic work for purposes as described in Articles 16, 16b, 16c, 16h, 16n, 17b and 22 of this Act the means of benefiting from that exemption or limitation, to the extent necessary to benefit from that exemption or limitation and where that beneficiary has legal access to the protected work concerned. The provision in the previous sentence does not apply to works that are made available to users under contractual conditions at a place and time chosen by them individually'. Following consultation on the draft legislation, it was expected to be introduced into Parliament in April 2002. See, <http://www.minjus.nl/a_beleid/auteurswet/uk/>.

⁸³² See, for example, UK: <<http://www.patent.gov.uk/copy/notices/update.htm>>; Finland: <http://www.internationallawoffice.com/Ld.cfm?i=42084&Newsletters__Ref=4114>.

⁸³³ See, for example, <<http://www.eblida.org/efpic/efpic.htm>>.

6.46 Erkki Liikanen, Member of the European Commission responsible for Enterprise and the Information Society stated in his speech at the opening of the workshop:

‘There are many different interests to take into consideration. Good faith and commitment is needed from all sides to find common ground.

This workshop can be a starting point for such a consensus-building process. It might then be appropriate to take stock of progress in, say, six months’ time. We need to keep up this momentum.’⁸³⁴

6.47 Notwithstanding the controversial nature of the Copyright Directive, commentators in the EU have failed to identify any clearly articulated basis for adopting provisions such as Art. 6(4) of the Copyright Directive. Given this, the Committee is unable to support the European approach as a model for Australian copyright law. To do so would, in the Committee’s view, represent a radical departure from the way the Australian legislature has approached the question of balance in the digital environment and would leave unanswered the fundamental question of what to do about contracts that purport to exclude or modify the copyright exceptions. It would also fail to take account of the fact that unlike the EU which is subject to the European Convention of Human Rights (and the US which has the First Amendment) Australia has no Bill of Rights to guarantee such fundamental freedoms.⁸³⁵

Other EU legislation

6.48 There are also a number of other directives aimed at providing an effective framework for e-commerce. For example, the Electronic Commerce Directive⁸³⁶ establishes an overall framework to regulate aspects of information society services, having particular regard to their effect on electronic commerce. It does not overrule previous directives or national legislation, but seeks to coordinate Internet-related legislation.

6.49 The Electronic Signatures Directive ‘establishes a legal framework for electronic signatures and certain certification-services’ to facilitate e-commerce

⁸³⁴ OJEC L. 1 7 8/1. See, <http://europa.eu.int/ferociously_of_the_author_of_the_rapid_startcgiguesten.ksh?p_action.gettxt=gt&doc=IP/02/320|0|RAPID&lg=EN&display=>>.

⁸³⁵ See paras 5.91–2 above.

⁸³⁶ Directive 2000/31/EC of the European Parliament and the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, 17 July 2000.

(Art. 1).⁸³⁷ The Long Distance Selling Directive⁸³⁸ imposes certain consumer protection measures for online contracts. These include the requirements that consumers be provided with written confirmation of online contracts, and be given the right to return goods and gain a refund within seven days of receiving this confirmation.⁸³⁹ The Committee observes that this reinforces the Consumer Contracts Directive⁸⁴⁰ discussed in Chapter 5 which already sets a comparatively high standard for consumer protection in Europe. The Directive applies to ‘any contract concerning goods and services concluded between a supplier and a consumer under an organised distant sales or service-provision scheme run by the supplier, who, for the purpose of the contract, makes exclusive use of one or more means of distance communication up to and including the moment at which the contract is concluded.’ Guibault contends that while arguments could be made that the Directive does not apply to licences of copyright works, she is of the view that it covers electronic mass-market licences of copyright material.⁸⁴¹ Article 6(3) of the Directive expressly removes the right of withdrawal of the consumer with respect to contracts for the supply of audio or video recordings or computer software which were unsealed by the consumer, and for the supply of newspapers, periodicals and magazines. Guibault observes that this means that consumers of copyright material do not enjoy the same cooling-off period as consumers of other products.

6.50 The Committee is also aware that in July 2001 the European Commission embarked on a further harmonisation initiative. At that time it released a Communication to the Council and the European Parliament on European contract law.⁸⁴² In that communication it noted that while various pieces of European legislation touched on aspects of contract law there was no comprehensive code of contract law for the EU. It posed four options to standardise European contract law:

⁸³⁷ Directive 1999/93/EC of the European Parliament and of the Council of 13 December 1999 on a Community framework for electronic signatures.

⁸³⁸ Directive 97/7/EEC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts.

⁸³⁹ EU internet directives and their implications for US internet companies. *Hale and Dorr Internet Law*, 14 March 2002. See, <http://www.haledorr.com/practices/prac_pubsdetail.asp?ID=1624419222000&TypeID=6&areaID=17>.

⁸⁴⁰ Council Directive 93/13/EEC of 5 April 1993 on unfair terms in consumer contracts.

⁸⁴¹ Guibault, 2002, op. cit., pp. 206–7.

⁸⁴² OJ C255/01 2001.

- no Community action;
- promote the development of common contract law principles leading to more convergence of national laws;
- improve the quality of legislation in place; and
- adopt new comprehensive legislation at Community level.

6.51 The Communication invited public comments. The Committee notes that, in submissions made to the Committee, consumer groups favoured options three and four⁸⁴³ while professional and industry groups generally supported options one, two and three.⁸⁴⁴ The European Commission published a paper summarising reactions to its Communication on European Contract Law in April 2002.⁸⁴⁵ The Committee understands that the Commission intends to present its observations and recommendations, if appropriate, in the form of a Green or White Paper by the end of 2002.

6.52 While this legislation may harmonise rules for online contracting and establish certain consumer protections, it does not directly address the situation where licensors seek to exclude or modify the copyright exceptions. Hence, for the same reasons as discussed in Chapter 5 in relation to domestic remedies, the Committee is not satisfied that such legislation provides an appropriate means of dealing with contracts that purport to exclude or modify the copyright exceptions.

6.53 Nevertheless, the Committee notes with interest comments about the growing influence of European regulatory policy in e-commerce: 'Even if national boundaries matter less online than in the physical world, national rules still hold sway. EU regulations that are stricter than relatively hands-off American policy could have more influence in shaping global e-commerce law.'⁸⁴⁶ The EU even has an American focused website which, the Committee considers, is an attempt to improve

⁸⁴³ See, for example, BEOC's position on the Communication on European Contract Law available at <http://www.europa.eu.int/comm/consumers/policy/developments/contract_law/comments/index_en.html>.

⁸⁴⁴ See, for example, A position paper on behalf of the Law Reform Committee of the General Bar Council of England and Wales: <http://www.europa.eu.int/comm/consumers/policy/developments/contract_law/comments/4.14.pdf>.

⁸⁴⁵ <http://www.europa.eu.int/comm/consumers/policy/developments/contract_law/comments/summaries/sum_en.pdf>.

⁸⁴⁶ Konrad, R 'Europe – the Guardian of the Net', list server, 15 January 2002, ZDNet News, <<http://zdnet.com.com/2100-1106-814510.html>>.

understanding of EU policy in the US.⁸⁴⁷ As will become apparent from the discussion below, the approach of the EU in the Long Distance Selling Directive, for example, is vastly different from that of the US in UCITA.

Part II: The United States

6.54 In August 2001, the US Register of Copyrights and the Assistant Secretary for Communications and Information of the US Department of Commerce published a joint Report on the *Digital Millennium Copyright Act 1998* (DMCA) (the DMCA Report).⁸⁴⁸ In addressing concerns raised by submitters that contracts were being used to override the exceptions to the exclusive rights of owners in the US Copyright Act 1976 (US Act),⁸⁴⁹ the DMCA Report stated that:

'Although the general issue of contract preemption is outside the scope of this Report, we do note that this issue is complex and of increasing practical importance, and thus legislative action appears to be premature. On the one hand, copyright law has long coexisted with contract law. On the other hand, the movement at the state level toward resolving questions as to the enforceability of non-negotiated contracts coupled with legally-protected technological measures that give right holders the technological capability of imposing contractual provisions unilaterally, increases the possibility that right holders, rather than Congress, will determine the landscape of consumer privileges in the future. Although market forces may well prevent right holders from unreasonably limiting consumer privileges, it is possible that at some point in the future a case could be made for statutory change'.⁸⁵⁰

6.55 As the DMCA Report's findings indicate, no concluded position has been reached in the US as to whether legislation might be needed to address the impact of private agreements on the copyright exceptions established by the US Act. In what follows, the Committee discusses aspects of US copyright and contract legislation and case law which are relevant to its present inquiry.

⁸⁴⁷ <<http://www.eurunion.org/>>.

⁸⁴⁸ The DMCA Report, prepared pursuant to s. 104 of the DMCA, is based primarily on material submitted by members of the public, academics, libraries, copyright organisations and copyright owners. Thirty written comments and sixteen replies to comments were received in response to a Notice of Inquiry published on 5 June 2000. Interested parties were then called to testify at a public hearing on 29 November 2000. Written comments and summaries of parties' testimonies can be found on the Library of Congress website at: <http://www.loc.gov/copyright/reports/studies/dmca/dmca_study.html>.

⁸⁴⁹ Contained in Title 17 of the United States Code.

⁸⁵⁰ DMCA Report pp. xxxi-ii.

US Copyright Act

6.56 The US legal system is similar to Australia's in that it involves the interaction of federal and state law. In contrast, it has been observed that 'the EU is neither an international organisation in the usual sense nor an association of States, but rather an autonomous entity somewhere in between the two. In legal circles, the term "supranational organisation" is now used.'⁸⁵¹

6.57 As in Australia, the US Act is a federal Act made pursuant to a specific grant of constitutional power, while contracts are in most respects governed by state law. This is to be contrasted with the EU, which has sought to regulate aspects of both copyright and contract law based on its power to establish an internal market.

6.58 The US Act provides for a number of exceptions to the exclusive rights of owners.⁸⁵² The uses permitted by these exceptions are in most cases loosely similar, although by no means identical, to uses permitted under the exceptions set out in the Copyright Act.

Fair Use

6.59 Section 107 of the US Act bases most exceptions to the exclusive rights of owners on the doctrine of 'fair use'. It provides that 'fair use of a copyright work...for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research is not an infringement of copyright.' Factors to be taken into account in determining whether a use is 'fair' under s. 107 include:

- the purpose, character and commerciality of the use;
- the nature of the copyrighted work;
- the amount and substantiality of the portion used; and
- the effect of the use upon the potential value of the copyrighted work.

⁸⁵¹ Borchardt, *op. cit.*, p. 24.

⁸⁵² Referred to in the US Act as 'limitations'.

The Committee observes that similar considerations have been applied in determining whether a dealing is fair under relevant provisions of the Copyright Act.⁸⁵³

6.60 The US doctrine of fair use applies irrespective of the manner in which the material is made available, ie, it applies equally in the online and offline environments. The doctrine is flexible enough to take account of meritorious uses which might otherwise be excluded by a more specific list of exceptions. On the other hand, its major disadvantage is that its application is unpredictable. A number of sets of guidelines have been developed in an attempt to clarify what amounts to fair use in particular contexts⁸⁵⁴ although these have an ambiguous legal status.⁸⁵⁵

Libraries and archives

6.61 Section 108 of the US Act allows libraries and archives to make limited copies of works or parts of works and to distribute these copies under certain limited circumstances, for example to answer a user request, to replace lost or damaged works, or to deposit unpublished works for research use in another library or archive.

Computer programs

6.62 Section 117 of the US Act allows the lawful owner of a copy of a computer program to make, or authorise the making of, another copy or adaptation of that program if it is necessary as an essential step in the utilisation of the program in conjunction with a machine, or for archival purposes. This section has some parallels with ss. 43A and 111A of the Copyright Act.

6.63 The US Act does not create particular exceptions for computer programs of the type set out in ss. 47B to 47F of the Copyright Act. Accordingly, it does not

⁸⁵³ ie, the fair dealing provisions in ss. 40-43 (see discussion in Chapter 3).

⁸⁵⁴ For example, the *Classroom Guidelines (1976)*, *Music Guidelines (1976)*, *Off-Air Videotaping Guidelines (1981)*, and the *CONTU (National Commission on New Technological Uses of Copyright Work) Guidelines*.

⁸⁵⁵ Crews KD. The law of fair use and the illusion of fair-use guidelines. *Ohio St.L.J* 2001;62:599–702. Crews also argues that guidelines have not only largely failed to clarify acceptable uses but have been 'a crutch for judicial rulings and an externally validated structure to ease the task of policymaking – as distinguished from a responsibility of following the law' (at pp. 700–1).

contain a provision similar to s. 47H. In the US, these types of uses would need to fall within fair use to be non-infringing. For example, and as noted in Chapter 4, in *Sega Enterprises Ltd v Accolade Inc*⁸⁵⁶ it was held that reverse engineering, including the decompilation of a computer program to determine its unprotected ideas and functional concepts was a permissible 'fair use'.

The DMCA

6.64 The DMCA inserted provisions dealing with circumvention devices into the US Act. Like the Digital Agenda Act, the DMCA is intended to align US copyright law with international obligations under the WCT.

6.65 Unlike the Digital Agenda Act, however, the DMCA distinguishes between copy control and access control.

6.66 Insofar as it applies to copy control measures, the DMCA is similar to the Digital Agenda Act. The DMCA prohibits manufacturing, importing or otherwise trafficking in devices designed to circumvent a copy control measure,⁸⁵⁷ but does not prohibit the mere act of circumventing a copy control measure. The reason for this is essentially the same as that which informed the decision of the Australian legislature not to extend s. 116A of the Digital Agenda Act to circumvention in general, ie, that prohibiting such conduct could inhibit non-infringing behaviour such as fair use.⁸⁵⁸

6.67 Insofar as it applies to access control measures, the DMCA is broader than the Digital Agenda Act. The DMCA prohibits both the act of circumventing an access control measure⁸⁵⁹ and manufacturing, importing or trafficking in technology designed to circumvent an access control measure.⁸⁶⁰ The Digital Agenda Act does not prohibit the act of circumvention. Further, the relevant provision of the DMCA

⁸⁵⁶ 977 F.2d 1510 C.A.9 (Cal. 1992).

⁸⁵⁷ s. 1201(b)(1).

⁸⁵⁸ Lindsay, *op. cit.*

⁸⁵⁹ s. 1201(a)(1)(A).

⁸⁶⁰ See ss. 1201(a)(2).

is not confined to measures designed to prevent copyright infringement, as is the case with the Digital Agenda Act.

6.68 The anti-circumvention provisions of the DMCA are subject to limited exceptions such as reverse engineering, security testing, good faith encryption research, and certain uses by non-profit libraries, archives and educational institutions. These are similar, although not identical, to the ‘permitted purposes’ exceptions under the Digital Agenda Act. The Committee observes that the approach in the EU Copyright Directive takes an even stricter approach to the relationship between the exceptions and TPMS. As discussed in the previous section (with the exception of the temporary reproduction provision, which is mandatory), safeguards are put in place with respect to eight exceptions, although it is uncertain how they would operate. Furthermore, the safeguards do not operate at all where goods or services are bought over the Internet.

6.69 The US Act also requires the Library of Congress, on the recommendation of the Register of Copyrights, to determine in a rule-making proceeding whether to exempt any classes of work from the application of the anti-circumvention provisions. In October 2000, the Library of Congress declared two exempt classes: compilations consisting of lists of websites blocked by filtering software applications; and literary works including computer programs and databases protected by access control mechanisms that fail to permit access because of malfunction, damage or obsolescence. In the course of the rule-making procedure, the Register concluded that a ‘class’ of works should be determined according to attributes of the work rather than in terms of the status of the user or the nature of the use.⁸⁶¹ The rule-making procedure is to be repeated every three years.

First sale doctrine

6.70 Section 109(a) of the US Act relevantly provides that notwithstanding an owner’s exclusive distribution right⁸⁶² ‘the owner of a particular copy or phonorecord

⁸⁶¹ See, Lindsay, *op. cit.*, pp. 15–6.

⁸⁶² per s. 106(3) of the US Act which provides that (subject to ss. 107–121) an owner of copyright has exclusive rights to ‘distribute or authorize the distribution of copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending.’

lawfully made under this title or any person authorized by such owner is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.’ It thereby codifies the ‘first sale doctrine’⁸⁶³ which in turn reflects the principle that tangible property is alienable unless there is clear Congressional intent to the contrary. While ownership of the copy may be transferred, the exclusive rights of copyright (in particular, the right to reproduce the work) remain with the copyright owner.

6.71 The Committee notes that questions have arisen as to whether the first sale doctrine does/should apply to works in digital form. This issue was dealt with in the DMCA Report, which was mentioned at the beginning of this Part and is discussed further below. The DMCA Report states that ‘[i]n a sense, the only reason the issue of first sale arises in the U.S. [with respect to works in digital form] is because we chose to implement the making available right [in the Internet Treaties] through, inter alia, the distribution right. Elsewhere, online transmissions are considered communications to the public, and the first sale doctrine simply does not apply.’⁸⁶⁴ As the first sale doctrine and ‘distribution right’ are not mirrored in the Copyright Act, the Committee observes that the issue of whether a transaction is a license or a sale is not as significant in Australia as in the US.

Recent case law

6.72 A number of high profile cases, discussed below, have raised the issue of whether recent amendments to the US Copyright Act are constitutionally legitimate. The Committee observes that none of these directly address the issue of whether contracts which exclude or modify the exceptions to the exclusive rights of copyright owners are enforceable. Nevertheless, the Committee considers that these cases highlight the differences between the Australian and US constitutional settings. As

⁸⁶³ The doctrine was first enunciated in *Bobbs-Merrill Co. v Straus* 201 U.S. 339 (1908) which held that the exclusive right to vend under the copyright statute applied only to the first sale of the copyrighted work.

⁸⁶⁴ DMCA Report pp. 94–5. The DMCA Report notes (at p. 95) that the EU Copyright Directive provides for a distribution right that is limited by the exhaustion principle and a separate making available right that is not. The exhaustion principle is expressly limited to the circulation of tangible copies. In Australia, the relevant right is the right to communicate – ie, make available online or electronically transmit – a work or other subject matter to the public.

the cases demonstrate, the US Constitution has provided a starting point for challenges to legislation which, it is argued, favours owner interests to the detriment of important public policy goals. The Committee observes that the Commonwealth Constitution does not contain similar provisions to those invoked in the cases below.⁸⁶⁵

6.73 The Committee also considers that these cases are important because they have served as a focus for arguments regarding the extent to which the exceptions to the exclusive rights of copyright owners are, and should be, protected by law.

6.74 In *Universal City Studios Inc. v Eric Corley*,⁸⁶⁶ the US Second Circuit Court of Appeals applied the provisions of the DMCA to uphold a permanent injunction⁸⁶⁷ preventing the defendant from posting a computer program (DeCSS) for decrypting a DVD access code (CSS) on a website and from knowingly linking to other websites containing the program.

6.75 The defence was funded and coordinated by the Electronic Frontiers Foundation (EFF) whose members include leading US academics.⁸⁶⁸ Amicus briefs were submitted by, amongst others, the American Civil Liberties Union.

6.76 The Court of Appeals, however, agreed with the judge at first instance that the defendant's actions breached the anti-trafficking provisions of the DMCA as the primary purpose of DeCSS was to circumvent CSS. This was despite the defendant's argument that DeCSS was written to allow interoperability of CSS protected DVDs with Linux. Kaplan J rejected the testimony on which this claim was made, stating that it could not be credibly maintained that the sole purpose – or indeed any purpose – of DeCSS was for making interoperable products (rather than decrypting CSS), noting that its originator was a member of a well known hacker group who viewed

⁸⁶⁵ Although see the discussion of the implied right of freedom of political communication at para. 5.92 and of possible boundaries to s. 51(xviii) of the Commonwealth Constitution at para 6.91.

⁸⁶⁶ 273 F.3d 429 C.A.2 (N.Y., 2001). (The decision is often referred to as the Reimerdes case, on the basis of the name of the decision in the court below).

⁸⁶⁷ Issued by the United States District Court in *Universal City Studios Inc. v Reimerdes* 111 F.Supp. 2d 294 (S.D.N.Y. 2000); (2000) 51 IPR 441. See discussion in Goldberg D, Bernstein R. The prohibition on circumvention devices and the attack on the DVD. E.I.P.R. 2001;23(3):160–3.

⁸⁶⁸ In particular, Lawrence Lessig and Pamela Samuelson. The defendant was also represented by Stanford University Law School Dean, Kathleen Sullivan.

‘cracking’ as an end in itself and a means of demonstrating his talent and who fully expected that the use of DeCSS would not be so confined.⁸⁶⁹ It has also been observed that the decisive holding in that case was that decrypting CSS was DeCSS’s only function and hence the subjective motivation of the defendant was irrelevant.⁸⁷⁰

6.77 The defendant also argued: (1) that the DMCA, as construed by the Court below, oversteps limits in the Copyright Clause on the duration of copyright protection,⁸⁷¹ (2) that the DMCA as applied to his dissemination of the DeCSS code violated his First Amendment right to free speech, and (3) that the DMCA violates the First Amendment and the Copyright Clause by unduly obstructing the fair use of copyright materials.

6.78 While the Court dismissed the first argument on the basis that it was neither properly pleaded⁸⁷² nor backed by evidence,⁸⁷³ it appeared to acknowledge that the argument might have merit under different circumstances.⁸⁷⁴

6.79 With respect to the second argument, the court held that computer code could qualify as ‘speech’. However, it found that the restrictions on speech imposed by the DMCA were a content neutral means of advancing important governmental interests (unrelated to the suppression of free expression) that did not burden substantially more speech than necessary. Accordingly, the restrictions were not constitutionally prohibited. The Committee notes that First Amendment protections

⁸⁶⁹ at 320; 459 IPR.

⁸⁷⁰ Lindsay, *op. cit.*

⁸⁷¹ Because it exceeds the constitutional authority of Congress to grant copyrights for a ‘limited time’ by ‘empower[ing] copyright owners to effectively secure perpetual protection by mixing public domain works with copyrighted materials then locking both up with technological protection measures’ (Brief for Appellants, quoted in the judgment at 445).

⁸⁷² Having been presented in a footnote to the defendant’s court documentation.

⁸⁷³ Being ‘entirely premature and speculative at this time on the record’ (at 445).

⁸⁷⁴ Namely, ‘at some future time in a case with a properly developed record’ (at 445). In the Court below, Kaplan J had also noted that the possibility that encryption would preclude access to public domain works ‘does not yet appear to be a problem although it may emerge as one in the future’ (at 338, footnote 245).

would not, of course, be available to an Australian defendant charged under the Digital Agenda Act.⁸⁷⁵

6.80 The defendant's third argument, that fair use 'is rooted in and required by both the Copyright Clause and the First Amendment'⁸⁷⁶ and that the DMCA unconstitutionally eliminates fair use of copyright materials, was also rejected by the Court which noted that: the defendant did not claim to be making fair use of copyright materials and nothing in the injunction under challenge prohibited the exercise of fair use rights; and, there was no evidence that the injunction prevented others from exercising fair use rights.⁸⁷⁷ While it observed that the Supreme Court has never held that fair use is Constitutionally required, the Court observed that 'some isolated statements in its opinions might arguably be enlisted for such a requirement'.⁸⁷⁸

6.81 Lawyers for the defendant have asked that the full 2nd Circuit Court of Appeals reconsider the Court of Appeals' decision.⁸⁷⁹

6.82 Criminal proceedings have also been brought under the DMCA against a Russian programmer, Dmitri Sklyarov, and his employer, ElcomSoft, for distributing an application that bypasses security encryption in Adobe System's Acrobat e-book

⁸⁷⁵ Although, as discussed in para. 5.92, the implied right of freedom of political communication might conceivably found a similar if more restricted plea in Australia. In a related case, a Princeton University Professor, Edward Felton, sought an order allowing him to publish research detailing shortcomings in digital watermark technology used to protect musical recordings. The plaintiff alleged that he had a First Amendment right to publish the research and that the Recording Industry Association of America had threatened him with legal action under the DMCA if he did so. However, the court held that the alleged threats of legal action had not prevented the plaintiff from publishing his work. See, Lemos, R. 'Court dismisses free-speech lawsuit', list server, 28 November 2001, CNET News.com, <<http://news.com.com/2100-1023-276352.html?legacy=cnet>>.

In contrast, see, *DVD Copy Control Association v Bunner* (2001) 93 Cal. App. 4th 648. While this case was not argued in terms of the DMCA, the California's 6th District Court of Appeals overturned a preliminary injunction prohibiting posting on the Internet of source code for the DeCSS program. The plaintiff had argued that DeCSS embodied a trade secret (ie, information about CSS) acquired by improper means and published in breach of State trade secret legislation. The court held that the preliminary injunction was an unjustified prior restraint of constitutionally protected speech. However, the court noted that the availability of injunctive relief against copyright infringement may be supported by justifications that are inapplicable to trade secrets. The California Supreme Court has agreed to hear an appeal by the plaintiff. See, McKee, M 'California justices to decide clash of trade secrets, free speech', list server, 22 February 2002, The Recorder (on Law.com.), <<http://www.law.com/cgi-bin/gx.cgi/AppLogic+FTContentServer?pagename=lawView&c=Article&cid=ZZZ41WC5ZXC&live=true&cst=1&pc=0&pa=0>>.

⁸⁷⁶ Brief for Appellants, quoted at p. 458.

⁸⁷⁷ at 459.

⁸⁷⁸ at 458.

⁸⁷⁹ See, Bonisteel, S '2600 Magazine seeks another opinion in N.Y. DeCSS case', list server, 14 January 2002, Newsbytes, <<http://www.newsbytes.com/news/02/173635.html>>.

reader. The Committee observes that, like *Reimerdes*, this case attracted enormous publicity and became something of a rallying point for anti-DMCA lobbyists, with the EFF again involved.⁸⁸⁰ It was reported that websites were immediately established to demand Sklyarov's release,⁸⁸¹ while activists set up a mailing list, launched a defence fund and 'trashed' Adobe Systems for urging the US Government to arrest Sklyarov.⁸⁸²

6.83 The charges against Sklyarov were dropped in December 2001 in exchange for his testimony against his employer, the software company ElcomSoft.

6.84 ElcomSoft now faces charges of violating the DMCA by selling and conspiring to sell the program. In April 2002, a federal court denied a motion by ElcomSoft to dismiss the charges because the software was offered over the Internet and was not targeted at US consumers, and US law did not therefore apply (see discussion of jurisdictional issues in Chapter 5).⁸⁸³ ElcomSoft has also filed motions to dismiss the charges on the basis that: (1) the DMCA violates the Due Process Clause of the US Constitution because it is overly broad and vague in that it is unclear as to how someone who wants to make a tool to allow fair use can do so without violating the statute, and (2) the DMCA violates First Amendment rights. While these motions have been argued, they had not been ruled upon at time of writing.

6.85 In February 2002, the US Supreme Court agreed to hear a challenge to the constitutional validity of the *Sonny Bono Copyright Term Extension Act 1998* (CTEA) in the case of *Eldred v Ashcroft*.⁸⁸⁴ The petitioner is a web-publisher who builds free Internet libraries based on public domain works. He is represented by the well-known academic, Lawrence Lessig.

⁸⁸⁰ While it did not represent Sklyarov, the EFF was actively involved in lobbying on his behalf.

⁸⁸¹ For example, <<http://www.freasklyarov.org>> and <<http://www.boycottadobe.com>> (which allows patrons to make online donations to 'Dmitry's' cause).

⁸⁸² See discussion of the case in McCullagh, D 'Hacker arrest stirs protest', list server, 19 July 2000, Wired News, <<http://www.wired.com/news/politics/0,1283,45342,00.html>>.

⁸⁸³ See discussion in Reuters 'Judge refuses to dismiss ElcomSoft copyright case', list server, 2 April 2002, Macon.com, <<http://www.macon.com/mld/macon/business/technology/2984982.htm>>. (A motion to dismiss because a conspiracy had not been properly claimed was also rejected).

⁸⁸⁴ The Court granted certiorari over the decision of the US Court of Appeals for the District of Columbia Circuit in *Eldred v Reno* 239 F.3d 372 (C.A.D.C., 2001).

6.86 Prior to the CTEA, work created by individuals was protected for the life of the author plus 50 years. Works created by ‘corporate authors’ were protected for 75 years from the date of their creation. The CTEA added 20 years to both terms of protection. The Act was the 11th extension of copyright terms in the last 40 years.⁸⁸⁵

6.87 The Copyright Clause in the US Constitution gives Congress the power ‘to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and discoveries’.⁸⁸⁶

6.88 The petition argues that ‘Congress has now found a clever way to evade this simple constitutional command. By repeatedly extending the terms of existing copyrights...Congress has adopted a practice that defeats the Framers’ plan by creating in practice an unlimited term’.⁸⁸⁷ The petition quotes from the decision of Judge Sentel, who dissented in part in the court below,⁸⁸⁸ and who agreed that extending existing copyrights does not amount to securing exclusivity for a limited time.⁸⁸⁹

6.89 With respect to the CTEA’s retrospective aspect, the petition argues that Congress’s power to grant exclusive rights to owners cannot be separated from the requirement that the grant must be to promote the progress of science and useful arts (ie, the grant of monopoly rights must be a quid pro quo for creating something new). The Court below held, by majority, that the purposive aspect of the grant in no way restricts the scope of the power, provided each extension granted is limited. In response, the petition again quotes from Judge Sentel, who stated that ‘[o]nce a work is published...extending the copyright term does absolutely nothing to induce further creative activity by the author...’.⁸⁹⁰

⁸⁸⁵ The Committee notes that following the Term of Protection Directive in the EU, the standard term of protection in Europe is the life of the author plus 70 years. This is substantially longer than the standard term of protection in Australia (see footnote 4).

⁸⁸⁶ Art. 1 s. 8 cl. 8.

⁸⁸⁷ See, p. 6 of the online version of the petition as printed. The full petition is available at: <<http://eon.law.harvard.edu/openlaw/eldredvashcroft/cert-petition.html>>.

⁸⁸⁸ Holding that Congress had authority to extend the term of copyright protection for future works but that Congress had exceeded its power under the Copyright Clause with respect to existing works.

⁸⁸⁹ Stating that ‘[e]xtending existing copyrights is not promoting useful arts [see discussion following], nor is it securing exclusivity for a limited time’ (quoted at p. 7 of the online version of the petition as printed).

⁸⁹⁰ Quoted at p. 8 of the online version of the petition as printed.

6.90 The Committee notes that the petition also disputes the validity of the retrospective application of the CTEA on the basis that the Copyright Clause is impliedly limited to ‘original’ works and that works already the subject of copyright are not original. While the Court below acknowledged that extending copyright to a work that had fallen into the public domain would violate the requirement of originality, it held that extending an existing copyright term would not.

6.91 The Committee observes that the arguments raised with respect to the Copyright Clause in the US Constitution may be significant in the Australian context, given possible limits which may be read into s. 51(xviii) of the Commonwealth Constitution. However, the Committee also observes that any decision based on the purposive nature of the Copyright Clause would not necessarily be instructive in an Australian context. This is because s. 51(xviii) of the Constitution gives the Commonwealth power to make laws with respect to copyright for the peace, order and good government of the Commonwealth, in contrast to the more specific purpose stated in the US Copyright Clause.⁸⁹¹

6.92 The petition also argues that the CTEA conflicts with First Amendment rights in both its retrospective and prospective aspects. It argues that the established tests applied in First Amendment cases⁸⁹² were ignored by the court below which

⁸⁹¹ In *The Grain Pool of WA v Commonwealth* (2000) 202 CLR 479 the High Court emphasised that the grant of power in s. 51(xviii) should be widely interpreted. The majority (Gleeson CJ, Gaudron, McHugh, Gummow, Hayne and Callinan JJ), in rejecting the argument that the US Copyright Clause is expressed more generally than s. 51(xviii), stated that: ‘Clause 8 of s 8 of Art I contains a limitation, an express purposive element, which is lacking in s 51(xviii). This is the objective of the promotion of the progress of science and the useful arts. The differences between the two constitutional provisions are significant in demonstrating that the sufficiency of the connection between Australian legislation and the constitutional head of power will not necessarily be constricted in this fashion. In particular, it will be open to the Parliament to pursue its policies by legislation with respect to various subject-matters, if one of them appears in s 51(xviii) on an adequate reading of that text’ (at 498). However, in what has been described as an observation destined to become a ‘landmark footnote’ (see, Fitzgerald B. Case comment: *Grain Pool of WA v The Commonwealth: (Australian) constitutional limits of intellectual property rights*. E.I.P.R. 2001;23(2):103–7; 105), Kirby J (while agreeing in the result) stated that meaning should be given to a provision such as s. 51(xviii) ‘[t]o the full extent that the language of the Constitution warrants and that other important values which it upholds permit’ (at 531). As to what might or might not be permitted by such values, his Honour stated that ‘[n]o absolute or unlimited rule may be stated. The protection of intellectual property rights must be afforded in a constitutional setting which upholds other values of public good in a representative democracy. In the United States the relevant head of constitutional power has been viewed as containing in-built limitations many of which are derived from the competing constitutional objective of public access to information: *Graham v John Deere Co* 383 US 1 at 6 (1966); *Feist Publications, Inc v Rural Telephone Service Co, Inc* 499 US 340 at 348 (1991). In Australia, the constitutional setting is different but the existence of competing constitutional objectives, express and implied, is undoubted. See generally Lessig, *Code and Other Laws of Cyberspace*, (1999) at 131, 133–4’ (footnote 218).

⁸⁹² Namely, whether the means adopted by the statute are a content neutral means of advancing important governmental interests without burdening substantially more speech than necessary.

created a 'special immunity' for copyright legislation in holding that 'copyrights are categorically immune from challenges under the First Amendment'.⁸⁹³

Hollings Bill

6.93 As noted in para. 4.33, the Bill for the *Consumer Broadband and Digital Television Promotion Act 2002* (CBDTPA), which was recently introduced into the US Senate, would make it a civil offence to make or sell digital technologies that do not contain built-in systems that prevent copying of content. It would also impose criminal penalties upon anyone who alters existing security technologies or disables copy-protection mechanisms.

6.94 Advocates of this bill include content companies who have argued that failure to build copy-protection into digital hardware will lead to the industry's destruction. On the other hand, representatives of the software and computer industry have expressed their opposition to the bill, arguing that current law is sufficient. The Business Software Alliance, for instance, has described mandating these protections as 'an abysmally stupid idea'.⁸⁹⁴ The EFF has also expressed its opposition to the bill.⁸⁹⁵

6.95 Issues addressed by the bill were the subject of the US Senate Committee on Commerce, Science and Transportation (which is chaired by Senator Hollings) Hearing on Protecting Content in a Digital Age – Promoting Broadband and the Digital Television Transition, held in February 2002. Copyright industries' representatives argued that legislative intervention was necessary to ensure that material made available via broadband and digital television was protected from piracy. IT industry representatives argued that legislation would be an overly proscriptive and inflexible response to piracy which would freeze innovation and which would be better addressed by the market. The potential for legislation such as the bill to prevent legitimate uses

⁸⁹³ p. 13 of the online version of the petition as printed.

⁸⁹⁴ Godwin, op. cit., quoting Business Software Association General Counsel. See also, McCullagh, D 'Hollywood loves Hollings Bill', list server, 11 September 2001, Wired News, <<http://www.wired.com/news/politics/0,1283,46671,00.html>>.

⁸⁹⁵ See, 'EFF Alert: Oppose SSSCA; Support intel's bravery: A bad law and a sneaky process', EFF website, 8 March 2002. To view, follow link from archived materials at: <http://www.eff.org/IP/SSSCA_CBDTPA/>.

of copyright material by consumers of copyright material was also briefly canvassed by two witnesses.⁸⁹⁶

6.96 The Committee notes that reactions to the bill illustrate that the interests of content owners, the consumer electronics industry and the software industry can diverge⁸⁹⁷ and that this is in contrast to the view sometimes taken that owner/corporate interests in copyright are monolithic. The Committee observes that while submissions made to it were generally polarised along owner and user lines, APRA and the ABC (organisations generally identified as representing owners) argued in favour of mandating some exceptions. Equally, some of the views expressed by Monash University at the consultative forum regarding licence conditions were not shared by other members of the library and education sectors.

The DMCA Report

6.97 As noted at the beginning of this Part, in August 2001, the Register of Copyrights and the Assistant Secretary for Communications and Information of the Department of Commerce published the DMCA Report.⁸⁹⁸ The DMCA Report discusses proposals advanced during public consultation for changes to two sections of the US Act: s. 109 (in particular, creation of a digital first sale doctrine) and s. 117 (in particular, creation of an exemption for incidental copies and expanding archival copying exemptions for computer programs).

6.98 The Report also incidentally discusses comments⁸⁹⁹ as to the wider impact of the DMCA on fair use and other non-infringing uses and the pre-emption of copyright law by contract. Although the DMCA Report concluded that both of these issues were

⁸⁹⁶ Leslie L. Vadasz, Executive Vice President, Intel Corporation and President, Intel Capital, noted that a regulatory approach could result in consumers losing important fair use and other lawful rights. Robert A. Perry, of the Home Recording Rights Coalition, also raised concerns about efforts to control or eliminate reasonable, healthy and constructive practices of consumers. The Committee observes that, apart from the representative of the Home Recording Rights Coalition, consumer and/or user advocates were not invited to give testimony (for criticism of the make up of the witness list, see, Greene, TC 'Senator brutalizes intel rep for resisting CPRM', list server, 1 March 2001, The Register, <<http://www.theregister.co.uk/content/54/24262.html>>. Witness statements are available at: <<http://commerce.senate.gov/hearings/hearings0202.htm>>.

⁸⁹⁷ This point is made by Lindsay, *op. cit.*

⁸⁹⁸ See footnote 848, above.

⁸⁹⁹ ie, submissions.

beyond its terms of reference, the Committee considers comments made to the Register of Copyrights on these issues to be pertinent to the Committee's reference. Key comments on these matters are therefore discussed below, following a brief discussion of comments on the first sale doctrine and incidental copying/archival copying exceptions which are also relevant to the Committee's reference, if to a lesser degree.

Digital first sale doctrine

6.99 As noted in para. 4.121, the way in which works in digital form are accessed has allowed copyright owners to argue that a licence is required for uses of copyright works which did not previously require a licence. It has also allowed copyright owners to assert a right to control the subsequent transfer of digital works by a purchaser where this involves the reproduction of the work (and/or the exercise of other copyright rights). Given the provisions of s. 109 of the US Act, the question has arisen as to whether transactions which impose restrictions on transfer are properly characterised as licences for the exercise of rights or as sales of goods. There has been considerable debate about whether some transactions used to regulate trade in electronic materials are effectively sales of goods masquerading as licences in order to avoid the first sale doctrine. This issue arose in *Softman v Adobe*,⁹⁰⁰ where a US District Court cast doubt on a software licensor's ability to prevent software packages from being split up and sold as individual units by the licensee/purchaser. While the relevant agreement between vendor and purchaser was described as a licence, the court suggested that it was more properly characterised as a sale of goods rather than a licence of intellectual property.⁹⁰¹

6.100 The DMCA Report notes that views on whether the first sale doctrine should be expanded to apply to digital transmissions 'can be divided into two starkly contrasting groups: those arguing that section 109 should be amended to permit the

⁹⁰⁰ *Softman Products Company LLC v Adobe Systems Inc* 171 F.Supp. 2d 1975 (C.D.Cal., 2001).

⁹⁰¹ The court held that a software vendor was not bound by the terms of a shrinkwrapped end-user licence which contained the relevant terms as there was no privity of contract between the licensor and the vendor (and, as the vendor was not exercising any of the licensor's copyright rights, no license was required to unbundle the goods). However, the decision also characterised the licence as effectively a sale of goods (looking to its substance rather than form) and suggests that the agreement would have been considered a sale (rather than a licence) even if the shrinkwrap agreement was binding. See, J Contreras, S Chung, 'Is the transfer of software a license or a sale?', *Hale and Dorr Internet Law*, 1 January 2002, <<http://www.haledorr.com/publications/pubsdetail.asp?ID=82444122002>>.

digital transmission of works that [are] lawfully acquired (including the reproduction of the work as a part of the transmission process) and those opposing modification of section 109.⁹⁰² Of the former group, the most relevant to the Committee's inquiry was a combined submission from a number of library associations⁹⁰³ (the libraries). Amongst other things, this submission expressed concern that the rules against circumvention give copyright owners the ability to maintain a running control on access to and copying of their works which, they argued, frustrates the goal of the first sale doctrine by extending the rights of the copyright owner beyond the first sale of a particular copy.⁹⁰⁴

6.101 On the other hand, copyright owner interests argued that s. 109 should not be expanded to apply to the digital distribution of copyright materials. It was argued that transfer of a copy of a work by digital transmission requires copies of the work to be made, thereby implicating the owner's right of reproduction. It was also noted that digital transmission may implicate an owner's public performance and digital audio transmission rights. It was therefore argued that to apply the first sale doctrine in the digital environment would expand the doctrine well beyond its present scope.⁹⁰⁵ It was also argued that the market for works could be destroyed if a user were able to distribute a copy of a work while still retaining their own perfect copy.⁹⁰⁶ Some submitters suggested that, while the US legislation is working well, amendments to s. 109 would in any case be premature and could hamper the development of e-commerce and new business models.⁹⁰⁷

⁹⁰² DMCA Report, p. 44.

⁹⁰³ American Library Association, American Association of Law Libraries, Association of Research Libraries, Medical Library Association and Special Libraries Association.

⁹⁰⁴ DMCA Report, p. 39.

⁹⁰⁵ DMCA Report, p. 47.

⁹⁰⁶ As, it was argued, would be the case if a change along the lines proposed in the Boucher-Campbell Bill (see below) was adopted: DMCA Report pp. 47–8.

⁹⁰⁷ Including Steven J. Metalitz (American Film Marketing Association, Association of American Publishers, Business Software Alliance, Motion Picture Association of America, National Music Publishers Association and Recording Industry Association of America) (Copyright Industry Organizations); Emery Simon (Business Software Alliance); Keith Kupferschmidt (Software and Information Industry Association); and Susan Mann (National Music Publishers' Association Inc.).

6.102 In contrast, a submission from retail interests argued that the first sale doctrine already applies to digital media.⁹⁰⁸ It was said that this was because, upon completion of a transmission, a work is fixed in a tangible medium (eg, a computer hard-drive) and the owner of the tangible medium becomes the owner of a lawfully made copy of which they may dispose without the copyright owner's consent.⁹⁰⁹ It was also submitted that the US Act should be amended to clarify/provide that the first sale doctrine applies in this context.⁹¹⁰ On this point, it was argued that the public policy behind the first sale doctrine was to prevent restraints on the alienability of property in order to promote the continual flow of property and that the ability of the first sale doctrine to promote economic growth and creativity should be extended into the digital environment.⁹¹¹

6.103 The DMCA Report concluded that s. 109 was based on the nature of tangible, physical property which can be alienated without interfering with the copyright owner's rights in the property. It found that digital transmission was not the same as a transfer of a material object, noting that it involved the exercise of the copyright owner's reproduction right. It also viewed as decisive the fact that digital transmission may have a much greater effect on the market for copies provided by copyright owners and is accompanied by greatly increased risk of piracy.⁹¹² The DMCA Report stated that:

'In the final analysis, the concerns about expanding first sale to limit the reproduction right, harm to the market as a result of the ease of distribution, and the lessened deterrent effect of the law that could promote piracy, outweigh the pro-competitive gains that might be realized from the creation of a digital first sale doctrine.'⁹¹³

6.104 The DMCA Report concluded that it would be inappropriate to recommend that s. 109 of the US Act be expanded to incorporate a digital first sale right at this time. However, it did acknowledge that the time may come when Congress may wish

⁹⁰⁸ National Association of Recording Merchandisers, Inc. and Video Software Dealers Association, Inc., (NARM) Initial Comments, p. 3.

⁹⁰⁹ ie, the work is 'fixed in a tangible medium of expression (such as a computer, hard-drive, CD or DVD)': *ibid.*, pp. 36–7; DMCA Report, p. 45.

⁹¹⁰ For example, Digital Media Association, Initial Comments, p. 6; testimony of Alex Alben (RealNetworks, Inc., being a member of the Digital Media Association); testimony of Scott Moskowitz (Blue Spike, Inc.); and Libraries Reply Comments, p. 2.

⁹¹¹ DMCA Report pp. 45–6.

⁹¹² DMCA Report, p. 99.

⁹¹³ DMCA Report, p. 100.

to address concerns raised in submissions should they materialise.⁹¹⁴ With respect to concerns raised by libraries, the DMCA Report noted that '[w]e hope and expect that the marketplace will respond to the various concerns of customers in the library community. However, these issues may require further consideration at some point in the future'.⁹¹⁵

Temporary copies and archival copies

6.105 As noted above, s. 117 of the US Act allows a user to make temporary copies as an essential step in using a computer program and to make limited archival (back-up) copies of programs.⁹¹⁶ The DMCA Report acknowledged arguments that the use of technological protection measures could affect the s. 117 exceptions. It found, however, that archiving was generally limited via licensing conditions (rather than technological measures), and that reliable CD-ROMs (on which the great majority of software is sold) reduce the need for back-up copies. It concluded that the impact of the DMCA on s. 117 was not substantial and that no legislative change was warranted to address this impact.⁹¹⁷

Impact of s. 1201 of the DMCA on fair use and other copyright exceptions

6.106 As noted in Chapter 4, there has been growing concern in US academic circles about the ability of technological protection measures to expand the scope of copyright protection to the detriment of end-users and their ability to make fair use of works.

6.107 Concerns were raised by commenters as to the general implications of the anti-circumvention provisions of the DMCA on fair use and other copyright exceptions.⁹¹⁸ It

⁹¹⁴ DMCA Report, xx.

⁹¹⁵ DMCA Report, xxi.

⁹¹⁶ Provided all archival copies are destroyed in the event that continued possession of the program should cease to be rightful.

⁹¹⁷ DMCA Report, pp. 76–8.

⁹¹⁸ DMCA Report, pp. 66–8, 164–5.

was argued that any benefits that users could derive from the first sale doctrine could become meaningless in this context. For example, the libraries stated that:

‘the...[DMCA]... places criminal penalties on top of contractual restrictions, thereby increasing publishers’ ability to control access to works...While content owners contend that technological measures merely control unlicensed access and prevent piracy...many measures currently in use or development blur control over initial access with control over library lending and fair use practices such as viewing, reading, extracting, copying and printing. These measures may also allow copyright owners to control use and disposition of copies of digital works long after the copyrights have passed into the public domain.’⁹¹⁹

6.108 The DMCA Report indicated that an examination of the impact of s. 1201 on fair use and other copyright exceptions was beyond its scope.⁹²⁰

Whether contracts pre-empt the US Act

6.109 In a similar vein to submissions received by the Committee, a number of comments noted the prevalence of, and difficulties associated with, contracts which exclude or modify copyright exceptions which, it was argued, are displacing the provisions of the US Copyright Act.⁹²¹

6.110 The libraries stated that ‘[c]onsumers obtaining digital works are routinely required to assent to contract terms that require waiver of long-standing limitations on the exclusive copyright rights, including the first sale doctrine, fair use and preservation.’⁹²² The comments raised concerns regarding fair use, inter-library loans, lending for classrooms and off-site use, walk-in use, tying access to one computer only, archiving/preservation, availability of works, and the inability of libraries to accept donated copies of works. The libraries also drew attention to the difficulty in interpreting acceptable uses for particular works governed by ‘thousands’ of licences, rather than consulting one source of law.⁹²³

⁹¹⁹ Libraries Initial Comments, p. 4.

⁹²⁰ DMCA Report, p. 165.

⁹²¹ DMCA Report pp. 69–71, 162–4.

⁹²² Libraries Initial Comments pp. 1–2.

⁹²³ Testimony of Rodney Petersen (libraries).

6.111 The libraries' stated that 'increasingly sophisticated technological measures and private licenses between parties with unequal bargaining power threaten to curtail the abundant access to information and private intellectual inquiry that American libraries...were founded to facilitate.'⁹²⁴ Some commenters were also concerned about the use of mass-market agreements such as shrinkwrap and clickwrap licences to override the copyright exceptions.⁹²⁵ The possibility of enforcing restrictive licences through technological measures was also a point of contention.⁹²⁶

6.112 Library and other interests argued that the trends they identified are displacing the uniformity of federal copyright law with a wide variety of contractual terms detrimental to the copyright balance. According to the libraries' comments 'as the debate over [UCITA]⁹²⁷ has demonstrated, unless an express federal digital policy preempts state laws, content owners will continue to turn to local laws and restrictive licensing agreements as a way of forcing members of the public to waive the very federal rights that Congress reserved for the public...'.⁹²⁸ On this basis, library and other interests argued that the US Act should be amended to ensure that terms which override consumer privileges in the copyright law, or are otherwise unreasonable, are unenforceable.⁹²⁹

6.113 On the other hand, copyright industry interests argued that there was 'simply no evidence of a real and widespread problem with copyright licensing terms that can only be solved by federal pre-emption'.⁹³⁰ It was argued that the libraries' 'laundry list' of complaints' fell well beyond the scope of the DMCA Report⁹³¹ and that 'the

⁹²⁴ Libraries Initial Comments, p. 10.

⁹²⁵ See, for example, Digital Futures Coalition, Initial Comments.

⁹²⁶ See, Libraries' Initial Comments pp. 5–7.

⁹²⁷ See discussion of UCITA below.

⁹²⁸ Libraries' Initial Comments, p. 25.

⁹²⁹ DMCA Report, p. 162. For example, the libraries argued that: 'A uniform federal policy is needed which sets minimum standards respecting limitations on the exclusive rights of ownership and which sets aside state statutes and contractual terms which unduly restrict access rights' (testimony of James G. Neal), while the Digital Futures Coalition argued for a clear legislative statement 'as to the supremacy of federal law providing for consumer privileges under copyright over state contract rules which might be employed to enforce overriding terms in "shrink-wrap" and "click-through" licenses' (Initial Comments, p. 4).

⁹³⁰ Copyright Industry Organizations, Reply Comments, p. 12.

⁹³¹ Reed Elsevier Inc., Reply Comments, p. 3. See also Software and Information Industry Association, Reply Comments, p. 2, arguing that the libraries' comments were irrelevant to the inquiry.

parade of horrors predicted by some members of the library and user communities remains pure, unsubstantiated and implausible speculation'.⁹³²

6.114 It was also argued that '[t]he electronic commerce marketplace in works of authorship, while growing rapidly, is still at an embryonic stage [and] to subject it to such intrusive federal intervention at this time would be exceptionally imprudent.'⁹³³

6.115 The Committee notes that insofar as submissions to the Register of Copyrights addressed the possible conflict between private agreements and the provisions of federal copyright legislation, they raised arguments and concerns similar to those in the submissions received in the course of this reference.

6.116 The DMCA Report notes that submissions from user interests are, in essence, a request to amend s. 301 of the US Act which governs the scope of federal pre-emption of State law (including State contract law).⁹³⁴

6.117 Section 301 of the US Act states that:

'All legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103...whether published or unpublished, are governed exclusively by this title...[N]o person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.'

The DMCA Report notes that while contracts regulating copyright material are not prohibited by the US Act as a general matter, there is disagreement among courts as to the degree to which the US Act may preclude the enforcement of specific contractual provisions that would otherwise be enforceable under State law.⁹³⁵ It observes that while it has been held that contractual rights are not 'rights equivalent to any of the exclusive rights within the general scope of copyright',⁹³⁶ it has also been found that contractual rights are pre-empted to the extent that they essentially restate one or

⁹³² Reed Elsevier Inc, Reply Comments, p. 6.

⁹³³ Copyright Industry Organizations, Reply Comments, p. 12.

⁹³⁴ DMCA Report, p. 162.

⁹³⁵ *ibid.*

⁹³⁶ *ibid.*, citing *ProCD, Inc. v Zeidenberg*, 86 F. 3d 1447, (7th Cir. 1996).

more of the exclusive rights under s. 106 of the US Act with no 'extra element'.⁹³⁷ The DMCA Report notes that no case, however, has applied pre-emption broadly enough to nullify contractual provisions that vary or override exceptions and limitations in the US Act.⁹³⁸

Mass-market licences

6.118 In addition to submissions to the DMCA Inquiry the Committee notes that there has been much debate in the US as to whether fair use exceptions can or should be modifiable by contract. As was the case with submissions to the Committee, the use of mass-market licences in this context has been particularly contentious (see discussion of UCITA below).

6.119 The new types of mass-market agreements used to regulate trade in electronic materials were discussed in Chapter 5. As noted there, these agreements have yet to be judicially considered in Australia.

6.120 In the US, clickwrap agreements have been enforced in a number of cases.⁹³⁹ Prior to the decision in *ProCD Inc v Zeidenberg*,⁹⁴⁰ courts in the US had generally held that shrinkwrap licences are proposals for amending a contract of sale formed when a consumer paid for the shrinkwrapped product. Terms contained in shrinkwrap licences were therefore generally held to be unenforceable on the basis that the consumer could not have assented to them.⁹⁴¹

⁹³⁷ DMCA Report, p. 163, citing *National Car Rental Sys. v Computer Assocs. Int'l*, 991 F.2d 426, 433 (8th Cir. 1993); *Frontline Test Equip. v Greenleaf Software, Inc*, 10 F. Supp. 2d 583, 593 (W.D. Va. 1998).

⁹³⁸ *ibid.* The Report notes, also at p. 163, that a bill proposed by Representative Rick Boucher and Representative Tom Campbell (the Boucher-Campbell bill) H.R. 3048, 105th Cong., 1st Sess. s. 7 (1997) would have amended s. 301 to add the following: 'When a work is distributed to the public subject to non-negotiable license terms, such terms shall not be enforceable under the common law or statutes of any state to the extent that they: (1) limit the reproduction, adaptation, distribution, performance, or display, by means of transmission or otherwise, of material that is uncopyrightable under section 102(b) or otherwise; or (2) abrogate or restrict the limitations on exclusive rights specified in sections 107 through 114 and sections 117 and 118 of this title'.

⁹³⁹ *CompuServe v Patterson* (6th Circuit, July 22, 1996); *Hotmail Corporation v Van Money Pie Inc* 47: United States Patent Quarterly 2d 1020 (ND Cal, 1998); *I. Lan Systems Inc v Nextpoint Networks Inc*, 2002 WL 15592 (2002 D. Mass).

⁹⁴⁰ 86 F.3d 1447 (7th Cir. 1996).

⁹⁴¹ Samuelson P. Symposium: Intellectual property and contract law for the information age: the impact of Article 2B of the Uniform Commercial Code on the future of transactions in information and electronic commerce. *Berkely Tech. LJ* 1998;13:809-26, citing *Step-Saver Data Sys. v Wise Technology*, 939 F.2d 91, 103 (3d Cir. 1991) as an example. See also, Lemley MA. Beyond preemption: the law and policy of intellectual property licensing. *Calif. L. Review* 1999;87:111-72, 120, where the author cites 'numerous' other decisions in which shrink-wrap agreements have been held unenforceable.

6.121 However, in *Pro-CD*, a shrink-wrap contract was held to be enforceable by the US Court of Appeals Seventh Circuit. Although *Pro-CD* generated enormous publicity, US decisions which have followed it have been mixed (see discussion in Chapter 5). While Easterbrook J's statements in *Pro-CD* support the claim that 'the licence is the product'⁹⁴² (as discussed in Chapter 4), subsequent decisions illustrate that traditional contractual doctrines, such as whether there is notice of terms or genuine assent, remain important for online mass-market agreements.

The US legislative approach to electronic trade: Article 2B and UCITA

6.122 The National Conference of Commissioners on Uniform State Laws (NCCUSL) is a body that prepares uniform codes with a view to their enactment by US States. The NCCUSL determined that the enforceability of mass-market agreements and other contracts common in the digital environment would benefit from legislative certainty. In 1992, with the support of the American Law Institute (ALI), the NCCUSL began work on proposed Article 2B as an addition to the Uniform Commercial Code (UCC).

6.123 Twenty two different drafts of the legislation were prepared between 1995 and 1999. In April 1999, ALI withdrew its support from the project following which Article 2B was re-designed as the stand-alone UCITA. In July 1999, the Attorneys-General of 14 States (including Maryland)⁹⁴³ urged the NCCUSL to discontinue the project, raising a number of consumer protection concerns.⁹⁴⁴ UCITA was nonetheless adopted by the NCCUSL in 1999.⁹⁴⁵

⁹⁴² For example, his Honour stated that '[i]n the end, the terms of the license are conceptually identical to the contents of the package' 86 F.3d 1447 at 1453.

⁹⁴³ Which subsequently adopted its own version of UCITA (see below).

⁹⁴⁴ See, Letter to Mr Lebrun, President of the NCCUSL, from the Attorneys General of Connecticut, Idaho, Indiana, Iowa, Kansas, Maryland, Nevada, New Mexico, North Dakota, Oklahoma, Pennsylvania, Vermont, Washington and the Administrator of the Georgia Fair Business Practices Act, dated July 23, 1999. For full text see, <<http://www.ucitaonline.com/docs/799agsuo.html>>.

⁹⁴⁵ The full text is available at the NCCUSL website: <<http://www.law.upenn.edu/bll/ulc/ucita/ucita1200.htm>>.

6.124 Like Article 2B, UCITA has continued to attract sustained criticism from a range of sources including consumer and user advocates⁹⁴⁶ and large end-user corporations.⁹⁴⁷ In January 2002, a committee of the American Bar Association issued a report opposing and recommending changes to a number of UCITA's provisions.⁹⁴⁸

6.125 Most relevant for present purposes are claims that UCITA has the potential to upset the existing balance of interests between copyright owners and users by expanding the scope and power of contracts drafted and relied upon by software vendors and other copyright owners.⁹⁴⁹

6.126 In particular, it has been argued that Article 2B and UCITA would do this by: extending the definition of 'licence' to encompass transactions which might otherwise have been considered sales (and allowing for the enforcement of such licences); making mass-market agreements commonly used to regulate digital materials easier to enforce, and by providing that most of its default rules are subject to change by the parties in their agreement (which is likely to favour the stronger party to the transaction).

⁹⁴⁶ See, for example, the website hosted by Americans for Fair Electronic Commerce Transactions (AFFECT) devoted to its opposition: <<http://www.4cite.org/>>. The 'Mission Statement' on the homepage states that 'AFFECT, Americans for Fair Electronic Commerce Transactions, is a broad-based national coalition of industry leaders, libraries and consumer organizations dedicated to educating the public and policy makers about the dangers of UCITA, the Uniform Computer Information Transactions Act. AFFECT supports improvements in high-quality computer and information technology and the growth of fair and competitive markets in the United States and believes that UCITA is a dangerous, anti-competitive, anti-business, anti-consumer measure that will have a negative impact on the American economy and the development of electronic commerce and new technologies.'

⁹⁴⁷ For example, Boeing, Phillips Petroleum and Caterpillar. Large end-user companies are reported as being particularly concerned about electronic self-help and the ability to disclaim warranties under UCITA. See, for example, the following articles by Patrick Thibodeau:

'UCITA fix won't help big firms', list server, 14 August 2000, Computerworld, <http://www.computerworld.com/cwi/story/0,1199,NAV47_STO48513,00.html>; 'Users, vendors, face off over UCITA law in Texas', list server, 7 March 2001, Computerworld, <http://www.computerworld.com/storyba/0,4125,NAV47_STO58386,00.html>; and 'UCITA changes fail to appease', list server, 7 January 2002, Computerworld, <http://www.computerworld.com/storyba/0,4125,NAV47_STO67149,00.html>.

⁹⁴⁸ Amongst other things, the report raised concerns about: UCITA's clarity and ease of use, the application of consumer protection measures, post-sale terms, consumer protection measures, UCITA's relationship to other areas of law, and UCITA's electronic self-help provisions: American Bar Association Working Group Report on the Uniform Computer Information Transactions Act ('UCITA') (2001). The Report is available by opening the link on the American Bar Association's website at <<http://www.abanet.org/ucita/home.html>>.

⁹⁴⁹ Various aspects/provisions of Article 2B which have not been relevantly altered in UCITA have been criticised on this basis by, for example: Lemley, 1999, *op. cit.*; Evans GE, Fitzgerald B. Information transactions under UCC Article 2B: the ascendancy of freedom of contract in the digital millennium? UNSWLJ 1998;21(2):404-36; Litman J. The tales that Article 2B tells: Berkeley Tech. L.J. 1998;13:931-43; Nimmer D, Brown E, Frischling GN. The metamorphosis of contract into expand. Calif. L. Review 1999;87:17-77; and McManis C. The privatisation (or 'shrink-wrapping') of American copyright law. Calif. L. Rev. 1999;87:173-90.

6.127 NCUSSL has argued that UCITA creates no new property rights in information, that it merely clarifies existing law with respect to contract formation and that in some cases it actually introduces important new limits on enforceability.⁹⁵⁰ The contrary argument has been made that UCITA clearly alters existing law and/or that existing law is unsettled and that UCITA reflects particular trends only.⁹⁵¹ It has also been argued that contracts under Article 2B are really more akin to (newly created) property rights in that they ‘run with’ the goods.⁹⁵²

The effects of UCITA

6.128 UCITA is premised on the ability of parties to freely determine contractual terms. With certain limited exceptions, terms agreed by the parties govern a contract. If there is no express or implied agreement on a particular issue, UCITA’s default provisions apply.⁹⁵³ UCITA applies to agreements that involve ‘computer information transactions’,⁹⁵⁴ including traditional copyright material available online, software, access agreements and multimedia products. UCITA does not automatically apply to film, television or music, even where transmitted over the Internet.

⁹⁵⁰ Ring CC (Chair of Committee to Draft UCITA) and Nimmer RT (Reporter of Committee to Draft UCITA), ‘Questions and answers – Series of papers on UCITA issues’. See, NCCUSL website, <http://www.nccusl.org/nccusl/uniformact_qanda/uniformacts-q-ucita.asp>.

⁹⁵¹ For example, Lemley, 1999, op. cit., argues that Article 2B (relevant provisions of which were not essentially altered in Article 2B’s transformation to UCITA) ‘reverses the well-settled rule of existing law that in determining whether a transaction is a sale, a lease, or a license, courts look to the economic reality of the exchange. Under Article 2B, a transaction is automatically a license unless it constitutes an assignment of the intellectual property right itself’ (at 118–19). He also argues that Article 2B changes the rules of contract formation with respect to shrinkwrap and clickwrap licences (at pp. 119–22). See also, Litman, 1998 op. cit.

⁹⁵² Lemley, 1999, op. cit. p. 121.

⁹⁵³ See, Ring CC (Chair, UCITA Drafting Committee) ‘The need for uniform rules for the information highway – an overview of UCITA’, NCCUSL website: <http://www.nccusl.org/nccusl/uniformact_overview/uniformacts-ov-ucita.asp>.

⁹⁵⁴ s. 103(a), defined in s. 102(a)(11) as ‘an agreement or the performance of it to create, modify, transfer or license computer information or informational rights in computer information...’.

6.129 The effect of UCITA is that most mass-market licences for electronic materials will be *prima facie* enforceable, although some of UCITA's provisions do not apply, or apply in a modified form, to consumer and mass-market transactions.⁹⁵⁵ Further, UCITA only applies to contract law and does not permit federal or state consumer protection laws to be overridden.⁹⁵⁶

6.130 UCITA expressly provides that it does not pre-empt federal law.⁹⁵⁷ It has, however, been argued that UCITA will allow for the enforcement of contracts which pre-empt the US Act and the exceptions it establishes.⁹⁵⁸ NCUSSL has countered that 'cases routinely hold that copyright does not generally preempt state contract law' and that '[t]o the extent that the parties' contract is preempted, if at all, that preemption limits the freedom to contract and this is recognised by UCITA'.⁹⁵⁹ As discussed in para. 6.117 the Committee understands that whether agreements which override the exceptions might pre-empt the US Act is open to debate and that this would be the case regardless of whether or not UCITA applied.

6.131 Some of the more significant and/or controversial of UCITA's provisions are briefly discussed below.

Public policy

6.132 Section 105(b) allows a court to refuse to enforce a term of a contract that violates a fundamental public policy. The Official Comment (OC) accompanying UCITA notes that this provision reflects the position at common law and that while relevant public policies might include those relating to 'innovation, competition, fair comment and fair use', public policy will generally favour contract enforcement. The Committee notes that, broadly speaking, this is similar to judicial formulations of public policy in Australia.

⁹⁵⁵ According to Ring and Nimmer, *op. cit.*, a mass market licence is a standard form contract used for transactions with the general public in a retail setting where the information is generic and the customer can be anyone.

⁹⁵⁶ s. 105(c).

⁹⁵⁷ s. 105(a): 'A provision of this [Act] which is preempted by federal law is unenforceable to the extent of the preemption.'

⁹⁵⁸ For example, Litman, 1998, *op. cit.*

⁹⁵⁹ Ring and Nimmer, *op. cit.*

Unconscionable contracts

6.133 Section 111 follows the Uniform Commercial Code (UCC) (which in turn reflects the position at common law) in expressly prohibiting unconscionable contracts. According to the OC '[t]he basic test is whether, in light of the general commercial background and the commercial needs of the particular trade or case, the terms involved are so one-sided as to be unconscionable under the circumstances existing at the time the contract was made. The principle is one of the prevention of oppression and unfair surprise and not of disturbance of allocation of risks because of superior bargaining power.'⁹⁶⁰ The Committee observes that its comments in Chapter 5 regarding unconscionability under Australian law may be relevant to whether contracts which exclude or modify the copyright exceptions would be found to be unconscionable under UCITA.

Transfer of contractual interests

6.134 Section 503(2) of UCITA provides that in most cases a term that prohibits transfer of a party's contractual interest is enforceable and that a transfer made in violation of such a term is a breach of contract which is ineffective to create contractual rights in the transferee against the non-transferring party except in limited circumstances.⁹⁶¹

Terms post purchase

6.135 Under UCITA, terms introduced after purchase (as may occur with shrinkwrap and browsewrap agreements) are enforceable if certain conditions are

⁹⁶⁰ Citing *Intel Corp v Integraph*, 195 F.3d 1346 (Fed. Cir. 1999).

⁹⁶¹ Although if it occurs in a mass-market agreement it must be 'conspicuous'.

met.⁹⁶² UCITA's advocates argue that these conditions follow (and may even be more generous to consumers than) the developing common law approach.⁹⁶³ To the contrary, the fundamental difficulty of reconciling these terms with the traditional requirements of contract law has been noted.⁹⁶⁴ It has also been observed that there are contrary lines of authority to those cited by NCUSL⁹⁶⁵ and that UCITA would 'freeze' the common law in the wake of the *ProCD* decision.

Limitations on use of information

6.136 Section 605(b) allows a party to enforce limitations on the use of information by including passive electronic restraints within a copy of information to prevent uses that are inconsistent with the contract under certain circumstances.⁹⁶⁶ The OC states that the idea of a 'restraint' is analogous to the concept in the Copyright Act of a technological measure restricting access to a copyright work.

Electronic self-help

6.137 Under s. 815 (right to possession and to prevent use) and s. 816 (limitations on electronic self-help), if a licence is cancelled for breach, the aggrieved party has a

⁹⁶² These conditions include the following:

- there is a manifestation of assent to terms following an opportunity to review them;
- the recipient had reason to know that terms would follow the beginning of performance or use;
- the licensee is not actively prevented from printing or downloading a copy of relevant terms;
- the recipient has a right to return the product upon presentation of terms (for mass-market licences and some other transactions);
- the right of return is cost-free (for mass-market licences); and
- the licence provides for the restoration of the licensee's system if alterations were made when the licensee tried to view the terms (for mass-market licences).

The relevant sections are s. 208 (adopting terms of record), s. 209 (mass-market licences) s. 112 (manifesting assent/opportunity to review) and s. 211 (pretransaction disclosures in Internet-type transactions).

⁹⁶³ For example, Ring and Nimmer, *op. cit.*, state that '[a] consumer is better off under UCITA than under existing Article 2 for the sale of goods or current law for sale of services' (p. 7 online document as printed).

⁹⁶⁴ For example, the Committee notes that the ABA Report recommended that a licensor should make all the terms of a licence transaction available before the licensee pays, or becomes obligated to pay, for its use of or access to computer information and before the licensee otherwise becomes bound by the agreement.

⁹⁶⁵ Lemley, 1999, *op. cit.*, pp. 119–21.

⁹⁶⁶ If: a term of the agreement authorises the restraint; the restraint prevents a use that is inconsistent with the agreement; the restraint prevents use after expiration of the contract term or a stated number of uses; or the restraint prevents use after the contract otherwise terminates and reasonable notice is given.

right to recover licensed information and to prevent further use of the information provided certain conditions are met.⁹⁶⁷ Electronic self-help is prohibited in mass-market transactions. The sections permit remote disabling in some circumstances. These provisions have been particularly controversial. It has been argued that to facilitate self-help, software must include information security vulnerabilities ('back-doors') to enable the licensor to penetrate the licensee's system.⁹⁶⁸ This argument has been given a particular resonance following the events of 11 September 2001.⁹⁶⁹ The merits of allowing 'mission-critical' software to be remotely shut down have also been questioned,⁹⁷⁰ while it has been suggested that a software licensee could be caught in the middle of a dispute between a licensor and the licensor's supplier who could disable the end-user's product.⁹⁷¹ On the other hand, it has been argued that electronic self-help is a vital remedy for small software producers in particular, who may not otherwise be able to 'gain the attention' of large users acting in breach of a contract.

Unilateral modification of terms

6.138 Section 304 allows a contract to provide for unilateral modification of terms once performance has commenced provided that 'reasonable notice' of modification is given. In a mass-market contract, the other party is permitted to terminate the contract if the change alters a material term of the contract and the other party, in good faith, determines that the modification is unacceptable.

⁹⁶⁷ These measures can be taken without judicial process only if they do not involve a breach of the peace, or a foreseeable risk of personal injury or significant physical damage to information or property. Parties must also expressly agree to allow electronic self-help.

⁹⁶⁸ See, submission from Stanley A. Klein to the UCITA Standby Committee.

⁹⁶⁹ See, for example, Foster, E 'UCITA and national security', list server, 3 January 2002, Infoworld, <<http://www.infoworld.com/articles/uc/xml/02/01/03/020103ucsecurity.xml>>.

⁹⁷⁰ See, submission from Stanley A. Klein to the UCITA Standby Committee.

⁹⁷¹ *ibid.*

Warranties

6.139 UCITA allows implied warranties of merchantability with respect to computer programs,⁹⁷² accuracy of informational content⁹⁷³ and fitness for purpose of computer information⁹⁷⁴ to be disclaimed or modified.

Right to inspect

6.140 Under s. 608 a party receiving a copy has a right to inspect it before payment or acceptance, at a reasonable place and time and in a reasonable manner, to determine its conformance with the contract. The consumer-protective nature of this provision is undermined, however, when it operates with s. 604, which provides that if performance involves delivery of information or services which of itself grants a significant benefit that cannot be returned, then s. 608 does not apply. Hence, access contracts or pay-to-view contracts may not attract the protection.

Choice of Law

6.141 UCITA's choice of law and choice of forum provisions have also been controversial. These are discussed in Chapter 5, above.

Meeting of UCITA Standby Committee

6.142 While UCITA's final form must be considered as more or less settled, the UCITA Standby Committee convened an open meeting in November 2001 to consider a limited number of possible amendments to UCITA.⁹⁷⁵ This was the seventeenth such meeting in the UCITA project but the first since UCITA was

⁹⁷² s. 403.

⁹⁷³ s. 404.

⁹⁷⁴ s. 405.

⁹⁷⁵ In addition to members of the Standby Committee, the meeting was attended by over one hundred lawyers, lobbyists, interest group advocates, librarians and technology professionals and involved open debate and discussion on the proposed amendments.

promulgated by the NCCUSL and adopted by Maryland and Virginia.⁹⁷⁶ Following the meeting, the Committee recommended nineteen changes to UCITA, some of the more significant of which are mentioned below.⁹⁷⁷

Public comment

6.143 Under proposed amendments, UCITA will ban the enforcement of terms that preclude public comment or criticisms of products that have been distributed to the general public in final form.⁹⁷⁸ Arguments for such a ban would presently need to be based on s. 105(b) of UCITA or on fair use under the US Act. However, the proposed provision will not preclude enforcement of a contract term ‘that establishes or enforces rights under trade secret, trademark, defamation, commercial disparagement, or other laws’. The Committee notes that the absence of copyright from this list might suggest that copyright would not be a sufficient basis upon which to resist public comment or criticism of products. However, the Committee notes that the situation is not entirely clear.⁹⁷⁹

6.144 The Committee observes, in this context, that the State of New York has brought proceedings against the maker of McAfee anti-virus software alleging it is restricting free speech by barring customers from publishing product reviews without its consent.⁹⁸⁰

Transfer of licences

6.145 Under proposed amendments, terms in mass-market agreements prohibiting transfers of copies made as part of a donation of a computer to a public elementary or

⁹⁷⁶ The majority of proposals for change were submitted by Americans for Fair Electronic Commerce Transactions (AFFECT) an organisation comprised of diverse interest groups opposed to UCITA.

⁹⁷⁷ The full Report of the Standby Committee is available from the NCCUSL website: <<http://www.nccusl.org/nccusl/UCITA-2001-comm-fin.htm>>.

⁹⁷⁸ Proposed new s. 105(d).

⁹⁷⁹ Comments accompanying the proposed amendment do not provide any assistance on this question.

⁹⁸⁰ See, Associated Press ‘New York Challenges McAfee Software Covenants’, list server, 8 February 2002, law.com, <<http://www.law.com/cgi-bin/gc/AppLogic-FTContentServer?pagename=lawView&c=Article&cid=ZZZJG63BFXC&live=true&cs=1&pc=0&pa=0&s=News&ExpIgnore=true&showsummary=0>>.

secondary school, non-profit library, or from a consumer to another consumer, would be unenforceable (provided the transfer complies with s. 117 of the US Copyright Act).⁹⁸¹

Printed record of agreement

6.146 Proposed amendments to UCITA will also provide for licensees to retain a copy of the record of an agreement.

Electronic self-help

6.147 While the Standby Committee maintained that these provisions were reasonable, in light of the controversy surrounding this provision, it recommended that electronic self-help be banned under UCITA.⁹⁸²

Forum selection

6.148 Under proposed amendments to UCITA, the stipulation that exclusive forum selection is enforceable unless ‘unreasonable and unjust’ would be changed to provide that the selection is enforceable unless unreasonable or unjust. A new provision would also be added to provide that the enforceability of an agreed choice of exclusive forum is a question for determination by a court of appropriate jurisdiction of the state in which the action is brought.

Open source software

6.149 Under proposed amendments, certain implied warranties will not apply to open-source (ie, free) software.⁹⁸³

⁹⁸¹ See proposed new s. 503(2).

⁹⁸² The Committee recommended that it be replaced with an expedited right to relief along with an entitlement to Attorney’s fees if the person seeking to enforce the rights succeeds at hearing.

⁹⁸³ Unless a copy of the computer program is contained in and sold or leased as part of goods or if the transaction is with a consumer licensee who is not a software developer.

Reverse engineering

6.150 The Committee also notes that the Standby Committee recommended that a provision be inserted to invalidate otherwise lawful terms prohibiting reverse engineering to the extent that such reverse engineering is necessary to obtain information to establish interoperability between programs. According to the Standby Committee, '[t]his rule corresponds to law in Europe and to provisions of federal law on a different issue in the DMCA. It does not over-ride copyright, patent law or trade secret law, but does provide an important avenue for obtaining critical interoperability information'.

Progress and wider effects of UCITA

6.151 At the time of writing, UCITA had been adopted in Maryland and Virginia only. In 2001 it was introduced in Arizona, the District of Columbia, Illinois, Maine, New Hampshire, New Jersey, Oregon and Texas but it did not pass in any of these States. It has not, to date (April 2002), been introduced in any States in 2002.⁹⁸⁴ Maryland and Virginia respectively implemented a number of changes to the original UCITA which are set out in Appendix H.

6.152 The Committee observes that these, and any future amendments at state level, limit the harmonising effect of UCITA. However, The Committee also observes that UCITA's limited adoption does not necessarily mean that its provisions will be of limited effect. If the relevant law applicable to a contract is that of a State in which UCITA has been adopted, UCITA may apply to the contract. Thus, a contract that would fail under Australian law might, for example, be enforceable if it was governed by the law of Maryland or Virginia. Further, s. 109(a) of UCITA provides that the 'parties in their agreement may choose the applicable law' to the extent that this choice does not conflict with mandatory consumer protection rules. This means that there need be no reasonable connection to the jurisdiction selected (contrary to the position under the UCC). As already noted, s. 110 also provides that an exclusive choice of forum clause is enforceable unless unreasonable and unjust.⁹⁸⁵

⁹⁸⁴ Colombia has a two-year session, meaning that the Bill has simply carried over to 2002.

⁹⁸⁵ Although note the amendment to this section recommended by the UCITA Standby Committee.

6.153 Despite these possible effects of UCITA, the Committee observes that the adoption of UCITA appears to have slowed and that its impact may therefore not be as great as has been previously suggested. The Committee notes that a number of states have adopted 'bomb-shelter' statutes, which are designed to block the application of UCITA to companies and individuals residing in those states.⁹⁸⁶ While the usefulness of these statutes has been questioned, it has been observed that their adoption 'reflects a growing sentiment against UCITA [which]...combined with the failure of any additional states to enact UCITA for more than a year [means] the outlook for UCITA is looking increasingly grim'.⁹⁸⁷

6.154 The Committee notes that the need for similar legislation has not been raised in Australia. It makes no comment as to the desirability or otherwise of uniform legislation for the sale or transfer of computer information in this country, whether modelled on UCITA or otherwise.

6.155 As with submissions put to the Committee, criticisms of agreements which have the effect of overriding the exceptions to the exclusive rights of owners raised in the US tend to comprise two main strands. The first focuses on formal shortcomings of agreements (such as failure to provide sufficient notice of terms and failure to allow for proper assent) and/or general consumer protection concerns. The second strand is concerned with the fact that agreements may nullify the exceptions set out in a federal Act to the detriment of users. While the Committee acknowledges the interrelationship of these strands, it considers that it is important to recognise the extent to which they are separable.

6.156 The Committee observes that, in the absence of perfect equality of bargaining power between parties to a contract, tightening of consumer protection and contract formation laws may do little to alter the prevalence of agreements which override the copyright exceptions (although it may, of course, make them otherwise more acceptable from a consumer perspective). The Committee therefore considers that the first strand

⁹⁸⁶ KH Slade, MA Diener, 'Proposed uniform state licensing law is losing ground.' *Hale and Dorr Internet Law*, 10 April 2002. See, <<http://www.haledorr.com/publications/pubsdetail.asp?ID=86114102002>>. The authors note that identical 'bomb-shelter' statutes have been enacted in Iowa, North Carolina and West Virginia and that similar statutes are under consideration in New York and Ohio.

⁹⁸⁷ *ibid.*

of criticism – as advanced in some criticisms of UCITA – may obscure what is the critical issue for present purposes: whether the agreements in question undermine federal law by upsetting the copyright balance.

6.157 The Committee observes that arguments advanced in the US, that contracts which override exceptions to the exclusive rights of owners are or should be pre-empted by federal law, are similar to those presented to it in the course of its reference. The Committee therefore awaits developments in the US on the issue of pre-emption with interest.

6.158 The Committee notes that, while in both Europe and the US legislators have sought to provide for the legal protection of technological protection measures as required by the WCT, as in Australia, neither jurisdiction has resolved the issue of whether copyright exceptions can be set aside by contract. While there have also been initiatives for uniform European and US contract legislation, these have been met with mixed responses. Thus, while the Committee is mindful of the increasing need to take into account the laws of other jurisdictions, it does not think that these examples provide a template for Australia. As discussed in paras 6.47 and 6.72 the Committee observes that Australia's legal and constitutional setting differs from that of the EU, which is subject to the European Convention of Human Rights, and the US, which has broad constitutional guarantees.

