

UCITA: A Disaster in Progress

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Throughout most of the twentieth century, Americans have been able to rely on some ground rules for commercial transactions (consumer or business). The Uniform Computer Information Transactions Act (UCITA) undermines these foundations and, in its 336 pages, adds a host of rules that favor publishers of software and electronically delivered content. The Final 2001 version is at www.law.upenn.edu/bll/ulc/ucita/ucita01.pdf.

Here are four examples of undermined ground rules:

- (a) Under the centuries-old *doctrine of alienation*, which we call the *first sale doctrine* for copyrighted works and the *doctrine of exhaustion* for products that incorporate patented technology, when you buy a product, you can lend it, resell it or give it away without having to answer to the seller.
- (b) The *fair use doctrine* allows you to make copies of some (sometimes all) of a copyrighted work without obtaining permission of the copyright holder. Typical fair uses include quoting (or taking screen shots) for product reviews, copying parts of a work for educational purposes, and making intermediate copies of a product in the process of reverse engineering it.
- (c) *Competition* is fundamental to a free market economy, and vendors can't do much (other than compete well) to prevent or stop competition.
- (d) Sales are subject to a few *minimum fairness standards*, especially for products sold in the mass market.

UCITA Background

Over a twelve-year evolution, UCITA was drafted by three prestigious organizations: the American Bar Association (ABA), the American Law Institute (ALI), and the National Conference of Commissioners on Uniform State Laws (NCCUSL). All three groups are routinely involved in legislative drafting efforts. For example, ALI and NCCUSL co-author and co-maintain the Uniform Commercial Code, the legal backbone of American commercial law. It can take years to craft good legislation for complex issues.

Primary supporters of UCITA include large software companies, internet service providers, computer makers and publishers of electronic databases. See www.ucitayes.org/#who for the members of the UCITA-backing Digital Commerce Coalition (e.g. AOL, Microsoft, Intel). Opponents have included the leading software professional societies (including IEEE-USA www.ieeeusa.org/forum/POSITIONS/ucita.html), consumer advocates, librarians, the open source community, insurance companies and other large software customers (see www.ucita.com/who.html#members).

The American Law Institute passed resolutions in 1997 and 1998 calling for fundamental revisions in UCITA's approaches to intellectual property and basic contracting. When these were not forthcoming, the ALI withdrew from the project (changing UCITA's status from a proposed amendment to the Uniform Commercial Code to a standalone bill). Committees of the American Bar Association started the work on this project and representatives from a few Sections of the ABA sent representatives to the NCCUSL/ALI drafting meetings. However, the ABA as a whole only recently attempted to craft a position on UCITA. They appointed a task force, which reported back in January 2002 (see www.abanet.org/leadership/ucita.pdf) with fundamental criticisms of UCITA.

The National Association of Attorneys General (with 34 AGs signing) also recently sent NCCUSL a letter that concluded, "UCITA is so flawed that any amendments which could reasonably be expected to result from this process would not significantly ameliorate UCITA's negative impact on consumers, or on the marketplace in general." (See www.ucita.com/pdf/Nov132001_Letter_from_AGs_to_Carlyle_Ring.pdf.)

First Sale

Let's start with alienation / first sale. This allows you to sell your software used, or give a computer game that your son is finished with to the kid next door, or donate it to your library. This is not piracy. You're not allowed to keep a copy while giving another copy away. You are allowed to dispose of the copy you paid for.

UCITA allows sellers to avoid the first sale doctrine by defining software (and other electronic content) transactions as "licenses" rather than sales. A license grants a bundle of rights to the licensee that are different from those that the licensee would obtain by buying a copy.

American courts consistently treated contracts for off-the-shelf software (commercial and consumer software) as sales from 1970 to about 1995. More recent cases, heavily influenced by the UCITA drafting effort, have been more mixed. In essence, UCITA explores and works through the logical implications of reinterpreting software and information contracts under a licensing model.

The idea of using licensing to restrict the resale of an intellectual property product is not new. The American Publishers' Association tried it back in 1903, but it didn't work. When Macy's refused to play along, the Supreme Court refused to give effect to the license notice printed in the books ("The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 1908.)

In another classic Macy's case, *Straus v. Victor Talking Machine Co.* (243 U.S. 490, 1917), the Supreme Court refused to enforce a patent "license" that was attached to record players sold to the public. The Court said, "Courts would be perversely blind if they failed to look through such an attempt as this 'License Notice' thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest."

Despite the setbacks, content companies continued to use licensing language, and the courts continued to reject it. See, for example, *RCA Mfg. Co. v. Whiteman* (114 F.2d 86, 2d Cir. 1940) (Licensing language on record albums could not convert a mass-market sale into a license.)

In UCITA, Section 503(2) states "a term prohibiting transfer of a party's contractual interest is enforceable, and a transfer made in violation of that term is a breach of contract and is ineffective to create contractual rights in the transferee against the nontransferring party." In other words, UCITA eliminates the first sale doctrine for software and electronically delivered content.

The new twist added by UCITA is that the contract is called a license by the state legislature, not just by a vendor. Under the U.S. Constitution, commercial contracts are primarily governed by the states, not by Congress. If most states agree that this type of contract is a “license”, there is a good chance that federal courts will show deference to the definition.

Fair Use

UCITA section 102(a) (19) defines “Contractual use term” as “an enforceable term that defines or limits the use, disclosure of, or access to licensed information or informational rights, including a term that defines the scope of a license.”

Under UCITA section 102(a)(57), a scope term defines “(A) the licensed copies, information, or informational rights involved; (B) the use or access authorized, prohibited, or controlled; (C) the geographic area, market, or location; or (D) the duration of the license.”

UCITA section 307 (b) states that “If a license expressly limits use of the information or informational rights, use in any other manner is a breach of contract.”

Examples of terms limiting disclosure are terms in contracts from McAfee, Microsoft and Oracle that prohibit publication of the results of benchmark studies of a product or prohibit publishing a review of the product without the publisher’s permission.

The UCITA drafting committee issues a set of 19 proposed amendments in December 2001 (at www.law.upenn.edu/bll/ulc/ucita/UCITA_Dec01_Proposal.htm). Under one of the amendments, UCITA would allow public discussion by end-users (but not competitors or vendors or researchers) of products that have been distributed in their final form. Products that are shipped with the expectation of constant updating (think of .NET services) are probably not “final form.”

Reverse engineering is another example. Courts have traditionally enforced restrictions on reverse engineering of limited-distribution products covered by signed contracts, but have rejected restrictions for software products distributed in the mass-market. Under UCITA, the vendor can prohibit reverse engineering in all products. The 2001 proposed amendments would allow reverse engineering done to achieve interoperability (subject to several restrictions) but they still would not protect our current fair use rights to reverse engineer mass-market products for purposes like teaching and research, security protection, discovery and reporting or repair of defects, and investigative preparation for lawsuits.

Competition

UCITA’s endorsement of use restrictions in mass-market software products enables many anti-competitive practices. For example,

- (a) Competition from the used software market is eliminated because you can’t transfer your copy of the program when you’re done with it;
- (b) Reverse engineering for any competitive purpose is eliminated;
- (c) Sellers don’t have to show you the terms of their contract until after you pay for the software, take delivery and start to use it. Comparative shopping is almost impossible.
- (d) Competitive benchmarking can be banned (or at least, you can’t publish your results). These disclosure limitations are outrageous. It’s one thing to protect the secrets in a product from competitors, by restricting distribution of copies to a few people and limiting publication of details of the product. That’s not what’s going on. Instead, Oracle succeeded in blocking publication of a product review by PC Magazine and Microsoft tried to block publication of data collected for Network World. Anyone

can buy the products at issue. Competitors can do all the benchmarking they want. The people who don't get the information are the prospective customers.

Contracting

UCITA makes enforceable almost any term that the vendor can stick into a license contract, and provides a structure to make those contracts enforceable even if the vendor refuses to let you see a copy of the contract until after you have paid for the product, taken delivery and started to install it. Use your imagination for the range of terms that sellers can put into a contract under these circumstances. I give some examples at www.badsoftware.com/engr2000.htm.

Consumer Protection

Another problem of UCITA is its relation to consumer protection laws. Most consumer protection laws, such as the federal Magnuson-Moss Warranty Improvement Act and state statutes like California's Song-Beverly Act, apply to sales of "consumer goods." UCITA defines mass-market and consumer software contracts as licenses. What is sold is a right to use the software, not a copy of the software. Therefore, any statute whose scope is a sale of goods doesn't apply to software. This fine point allows proponents of UCITA to say, with a straight face, that UCITA doesn't repeal, change or interfere with any consumer protection law. It doesn't. It doesn't change those laws. It just pulls software outside of their scope.

UCITA's proponents advise legislators that, when UCITA is introduced in their jurisdiction, they should consider their state's consumer protection laws and decide which ones should be made applicable to software.

This poses an enormous burden on (typically unpaid) consumer protection advocates. It takes a lot of time and money to find all of the relevant consumer protection rules and then advocate that the legislature re-adopt or extend them. The laws in question were adopted over the span of a century. How much lobbying will it take to push them all through the legislature again? Who benefits if some of those laws are not passed?

Embedded Software

UCITA would be bad enough if it applied only to software and to other electronically delivered content. Unfortunately, it also applies to software that is embedded in computers and computer peripherals, and to software that is embedded in other machines if the access to the software constitutes a material purpose of the transaction. If the embedded software does fit within UCITA's scope, the vendor can also bring under UCITA the hardware that comes with the software.

Under UCITA, then, makers of computers and computer peripherals can pull their products outside of the more customer-friendly Uniform Commercial Code Law of Sales sell their products under UCITA instead.

Other consumer goods qualify too. Think of modern automobiles. Their onboard computers affect steering, braking, fuel injection, emission control and many other aspects of the handling of the car. If a manufacturer makes a car with 20 onboard computers, a few million lines of code, and capabilities that would be unavailable without the computers, it could make a strong argument that access to the software is an important part of the deal, and therefore that the software (and the rest of the car) should be governed by UCITA.

If your car's software is governed by a UCITA contract, the manufacturer's contract can prevent you from selling the car (from transferring the car's software) without its permission (thereby

gaining control of the resale market for its used cars), from writing nasty articles about the car's performance, from using the car for more than five years, and so on.

UCITA is not just a vendor's dream bill for software and information database vendors. It's also a wedge to drive into traditional approaches to consumer protection and contracting as they apply to traditional merchandise.

UCITA's proponents and comments suggest that UCITA couldn't stretch this far. It would take another paper as long as this article to walk through the details of UCITA's complex scope rules, but I think the result of a careful analysis would be clear. In their November, 2001, letter to NCCUSL, 34 Attorneys General (the chief law enforcement officials of their states) concluded that:

"The scope and applicability of UCITA, as well as its general approach to regulating "computer information transactions," would have potentially devastating effects on consumers. UCITA does not simply regulate software transactions; it also applies to goods with embedded software. . . . Using form contracts that "opt-in" to UCITA, sellers of a vast range of consumer goods, such as televisions, cameras, VCRs and other ordinary household products would thus be able to bring sales of these products under UCITA, thereby exempting such sales from the UCC and other laws."

The American Bar Association task force used the embedded software issue to illustrate how hard it is for skilled lawyers to understand UCITA. They pointed out that

"Many of the 'black letter' rules come across as convoluted and, at times, inscrutable. Time and again, when the Working Group attempted to consider the substantive merits of a UCITA concept or provision, the Group had first to parse through the language word by word and clause by clause, only to realize, in the end, that the individual members of the Group could not agree on what the particular section said or meant."

After pointing out the difficulties in making sense of the scope provisions, and noting that the UCITA authors' comments (which are included in the UCITA document but not reviewed or adopted by the legislature) claim that a VCR would not be a UCITA product, the task force concluded that "the analysis mandated by the scope provisions of UCITA, together with a fair reading of the UCITA definitions, allows for the possibility of VCR's being within the scope of UCITA."

The Prospects for UCITA

Virginia and Maryland passed UCITA when it first came out. Since then, UCITA has been proposed in several states but no state has adopted it.

My favorite summary of the ABA analysis comes from a dissenting opinion published as part of the ABA task force's report, written by one of the authors of UCITA.

"I know of no way that the report can be read other than to require a rewrite of UCITA to simplify it and to change many of the policy decisions embedded in it as a quid pro quo for favorable ABA action."

Given the prestige of the ABA report, capping the broad spectrum of previous criticism, I doubt that new state legislatures will adopt UCITA in the near future. This does not mean that UCITA is dead. The ABA report is more like a first glimpse of morning sunlight than a wooden stake through UCITA's heart. I predict that UCITA's sponsors will drag it underground for a while, perhaps long enough for groups that oppose UCITA to declare victory and focus their limited resources elsewhere. Then a few more cosmetic amendments will be made, enough to allow the authors to advertise a new, improved UCITA, and UCITA will fly again.

In the meantime, many of the people who advocated UCITA are joining new legislative drafting committees that are focusing on the same issues faced in UCITA but only a few at a time.

The Role of Engineers

Representatives of the engineering community played a small but significant role in UCITA. The IEEE, ACM, American Society for Quality, Free Software Foundation and the Independent Computer Consultants Association (ICCA) all published criticisms of UCITA. IEEE-USA and ICCA sent representatives to a few UCITA meetings. Individuals, especially Phil Koopman and Sharon Marsh Roberts, spent a lot of time finding ways to make engineering issues understandable to legislators and other analysts.

Like many other legislative meetings, the UCITA meetings were frustrating for engineers who attended. The UCITA drafting committee seemed unenthusiastic about hearing engineering viewpoints, especially those that disagreed with the approach the committee was advocating. However, engineers raised and explained many of the issues that later gained importance in the larger debate that happened in the press, the professional societies, and in the independent legal analyses (such as the one from the Attorneys General). We can provide many of the facts that lawyers and newspaper reporters need to ground their arguments and analyses.

Without our participation, I believe that UCITA would have passed through the drafting process more quickly and had much more success in the states.

As new bills come forward that carry many of the same policies as UCITA, such as the new Consumer Broadband and Digital Television Promotion Act (see www.politechbot.com/docs/cbdtpa/ for good links), engineering voices will continue to be important.