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Open Discussion of Presentation by Paul T. Sheils, Esq.

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OPEN DISCUSSION

PROFESSOR GORDON: This is a question addressed not to the contract law point but rather to the validity of contracts viewed as against either the Supremacy Clause—an attack on preemption grounds—or the First Amendment—a vulnerability on free speech grounds. Let me give you just briefly what I think you are going to say on both points, but I doubt that you are predictable.

On the preemption end I suspect what would happen is someone would claim against the state enforceability of contract that, under *Bonito Boats*, anything that Congress has not protected Congress is trying to put in the public domain, therefore, facts are in the public domain. The argument would thus contend that regardless of section 301 there is an independent prohibition against private parties taking out of the public domain something that Congress has put there. Your response I expect would be that Congress did not put facts into the public domain, that *Feist* says Congress is not even empowered to do that.

That would bring us to the second point, which is the First Amendment challenge. The First Amendment challenge would go something like this, I guess. We know from *New York Times v. Sullivan* that the First Amendment applies to state enforcement of ordinary tort actions, particularly those involving information. We know by implication from *Shelley v. Kraemer* that the First Amendment can also apply to the state enforcement of consensual agreements. That case involved a covenant, and state enforcement of that covenant was held to be state action and thus subject to constitutional scrutiny. (Of course, *Shelley* really involved the application of the Fourteenth Amendment, but that is how you incorporate the First.)

So the attack from the First Amendment perspective would be to say it is unlawful to force people to give away their right to repeat what is true. That is something guaranteed by the First Amendment applicable through the Fourteenth to the states and therefore applicable to breach of contract actions.

To that I imagine your answer would be doctrinal; something like, "this is not the kind of repetition of facts that the First Amendment is supposed to be about. This is a commercial replication." And, of course, that gets you down to a long complicated debate about what, in fact, the First Amendment does or does not do in the commercial arena. So, on either the preemption clause or the First Amendment front, I would very much like to hear your thoughts.

MR. SHEILS: I think you have accurately predicted what I was going to say. I do not think that the preemption issues would address

notions of freedom of contract. I think that section 301, for example, addresses state law, state actions. It does not indicate that two parties cannot freely contract to provide the limits of their contractual relationship. What preemption was intended to do was to make sure there was a uniform application of law throughout the land, and that it was not intended to limit the individual's ability to contract with another individual for services.

I think with respect to the First Amendment notions, I would agree that it is not simply the kind of expressions that the First Amendment is intended to protect here, believe it or not—this is a newspaper lawyer—but that again the freedom of contract notions that are inherent in online database relationships do not raise issues of freedom of expression; they raise issues of pure contract law. If I wanted to subscribe to this service, what rights do I get from it? If I do not want to subscribe to this service, I can go elsewhere to express myself.

PROFESSOR GORDON: I guess I should clarify that I am not so sure that I agree with your answers.

MR. SHEILS: I suspected that might be the case.

PROFESSOR GORDON: I am still troubled by the First Amendment and preemption angles. Rather than debate it, let me just tell you roughly what I am worried about.

In the preemption context I think that if you could prove a pattern of private contract was indeed interfering with something Congress wanted to do, that pattern of private contract would have to give way. So I think it is going to be an empirical question there. As well as I have a feeling that the Supreme Court is going to have to withdraw from the sharp dichotomy between "fact" and "expression" it put forth in *Feist*. That is, I think they will continue to say that facts are immune from copyright ownership, but I think they are eventually going to present it as being a non-constitutional statutory decision. Once they take that course, then the preemption argument about Congress wanting facts to be free for all to use gains strength.

Staying with contract law for one more moment, it is arguable that once something is declared not capable of being property, on either preemption or First Amendment grounds, that it should no longer be considered consideration suitable for sustaining a contract. If so, then arguably people are not getting what they paid for; they are paying for something they should get for free. Because this whole normative morass awaits serious consideration of the contract-preemption question, I do not think it is easy to dismiss the issue, although in the end you might be right.

MR. SHEILS: If I might interject, I think it goes back to the notion that Karl [Steele] was trying to address before. It is not just the

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facts; it is the expression that the proprietor and the effort the proprietor has put into the arrangement of those facts that would solve that.

PROFESSOR GORDON: I am not convinced. If you are using commerciality to evade the First Amendment point, you have to deal with the fact that lots and lots of valuable speech in this country is also commercially motivated, and the Supreme Court has long held that that mere commerciality does not vitiate someone's ability to use the courts' protection.

PROFESSOR LANGE: You may have seen his stuff, but if you have not, you might want to take a look at it. This is going to be real quick. I am giving Paul Sheils a cite that he may or may not have already. It is a work by Tom Palmer and George Mason, and I think it might be helpful to you in defending the contract point as an alternative to copyright protection. Have you seen it?

MR. SHEILS: No, I have not.

MS. GATES: This may be a minor point. Although I appreciate your analysis—and I am sure the online database providers appreciate it—when you talk about their subscription agreements and go on to say even if they are adhesion contracts, they should still be enforceable for these reasons.

I do not think most online vendors, at least I do not think that MDC would agree with you, that its standard form subscription agreement is an adhesion contract. Those contracts are frequently negotiated. They are frequently executed with companies that have very sophisticated legal advisors. Indeed, they are very sophisticated law firms in their own right, and I do not think, at least in the case of Mead Data Central, that you have to go through the analysis that this contract is an adhesion contract, but nevertheless it is enforceable.

MR. SHEILS: I would agree to the extent that the contract is subject to negotiation and is in fact signed, you remove the analysis from adhesion to the general analysis of negotiated contracts.

MR. CARSON: I would like to make a point on a First Amendment issue. I am not so sure that the right analogy to use with the Supreme Court is that of commercial speech. We have just seen that in the last term the Supreme Court has rejected a First Amendment challenge of a contract case having to do with a newspaper reporter claiming he is not bound by a contract he supposedly had with one of his sources not to reveal the source's identity.

If you remember Frank Snepp from several years ago, he was bound, unfortunately, by a contract that he had with the CIA not to reveal information he had as a CIA employee. Those are cases I would suggest where you can fashion a far stronger First Amendment argument in favor of disclosure, in favor of not recognizing the contract,

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much stronger than I think the case can be made that First Amendment grounds should require that you not honor the kind of contract you have with a database provider. If the First Amendment does not trump those contracts, I cannot imagine it trumping this kind of a contract.

PROFESSOR GORDON: Can I ask you if we were in a world where the Warren Court was once again interpreting the First Amendment—

MR. CARSON: Would that we were.

PROFESSOR GORDON: Leaving for a moment *Snepp* and the more recent cases and asking you a far more fundamental question, is there any conflict with free speech? How would you assess that if you were not bound by doctrine?

MR. CARSON: As someone who comes from a very strong First Amendment perspective, I see very little First Amendment issue here.

PROFESSOR GORDON: Could you explain?

MR. CARSON: Sure. First of all, you are talking about the right to obtain information—not the right to express yourself; I think that, in my view, is a lesser First Amendment battle.

Secondly, you are talking about a person's ability to contract with someone else, to have total freedom to enter into the relationship or not. I do not think you are in a situation where you have a restriction by the government on one's own ability to express oneself or really on one's own ability to obtain information. I cannot get the information from Mead Data, perhaps, unless I am willing to go and enter into a contract with Mead Data. That does not foreclose me from getting the information in some other way.

So, I think first of all the First Amendment values in this case are not nearly as high, and, secondly, I do not think that they are really foreclosing those values that you are trying to defend by upholding the contract.

PROFESSOR KARJALA: Well, I would like to pursue that a little bit. I have been intrigued by these shrink-wrap license cases, and I do not know how to come out on it myself. It seems to me, we can imagine, who knows, ten, twenty, thirty years from now, that books won't exist the way they do now. They are going to come over some medium of transmission from a source that's got it stored in electronic form. Suppliers can attach the same types of shrink-wrap licenses to those books as we are now talking about in the databases.

Let us suppose a book were published today, an ordinary book. And it says right on the book, it is all wrapped in cellophane and it says, and it also says on every page, "Anyone who reads this book hereby agrees"—this is a book on the revolutionary theory of how the

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Hindenburg blew up—"Anyone who reads this book hereby agrees, by opening this book and reading it, that he or she will not use any of the facts or theories whether or not they are protected by copyright." Would we enforce that? I would have a lot of trouble enforcing that. Now maybe today we argue unfairness and that sort of thing, but if we accept this theory now with respect to your databases, which works really nicely, because they really deserve some protection, aren't we going to eventually have to meet this problem?

MR. SHEILS: I think that is happening now. I think you see most books published now not with just a copyright but the standard sentence that follows it, that no republication, reproduction, or copying of any portion of this book is permitted. That is essentially a contract or at least an attempt to be a shrink-wrap license agreement.

PROFESSOR KARJALA: Do you think that it is?

MR. SHEILS: I do not. I do not think there is the reasonable expectation for that. I do not think that the consumer is reasonably notified of that portion. It is on the copyright page for one thing. I think you get into notions of notice and commercial justification and fairness if you change and more closely approach the formatted shrink-wrap license, if you change the consumer's notion of what he is paying for. It is again the freedom of contract notion. I will buy this only because I understand the restrictions that are placed on me.

It is going to be a long haul before the traditional print publication books get to that level of commercial justification and consumer awareness, but I think because of the technology and because the way in which online databases and the other electronic services are marketed, that we do have a commercial justification for online databases, that we do not have now and I do not think we can get to quite soon on the traditional book.

MR. CARSON: I think that has already happened. I think if you look at some of the publishers of some of the more valuable directories—that is, those that require an intense amount of labor and expense to put together, a lot of the publishers are considering and I think, perhaps, already implementing what is quite close to the shrink-wrap situation. The wiser of them are at least doing it in such a way that before you have obtained the book, you have received notice and hopefully signed a subscription form in which you acknowledge that you are going to be restricted from certain uses.

PROFESSOR KARJALA: But if it is enforceable, then copyright is dead, isn't it? If all you have got to do is make sure they get that notice, you have got all the protection you want by just placing the right magic words on your work.

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MR. CUTLER: Why do we not step back a moment from the incredible overtechnical legal analysis about how we can prevent anybody from learning anything, and ask the question, is it socially good that you could put on a book that you cannot lend this to a friend to read? You about advocated that.

MR. CARSON: I did not advocate it. I said it is happening.

MR. CUTLER: I am sorry, I submit that is exactly the extent of knowledge you want.

PROFESSOR LANGE: David [Carson], I am sorry, I think I missed your point. I thought you were offering one of those whacko hypos that we have been bandying about all day. You are saying that there are actual shrink-wrap licensing having that character that are now appearing?

MR. CARSON: Not quite as such, but I think we are coming close to it. I think we are finding situations where publishers are trying to figure out how they can bind the purchasers of certain of their highly expensive publications to contractual terms which are quite similar to shrink-wrap terms.

The typical situation is a situation not where you receive it and all of a sudden you see this restriction on it, but rather in order to purchase it, in order to obtain it, you first have to sign even a little form we all get from all sorts of legal publishing companies, for example, and on that little form where you sign your name and say yes, send me this book, there is a restriction.

PROFESSOR LANGE: I would make two responses to that. One I am prompted to make because I have been instructed to do it by Kurt Steele and Jerry Reichman. I think it helps us if we analyze what you are [Mr. Sheils] proposing in terms of its own universe, and there it seems to me it is permeated from first to last with explicit, very serious affirmative concerns for reasonableness, for being fair for a transaction in which what is going forward is one we can all sense our own emersion in without serious misgivings. No doubt they could go too far, but God knows I have trusted *The Wall Street Journal* for years and I assume that you [Mr. Sheils] will not go too far.

MR. SHEILS: We will not.

PROFESSOR LANGE: So there you are.

MR. SHEILS: No, we probably have in the past, but I will make sure they will not in the future.

MR. ODOZYNSKI: For those who might expect or hope that state contracts laws are preemptive in this area, what about state criminal statutes that would render unlawful unauthorized access to databases that contains a certain type of material?

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MS. WOLF: I think that state statutes are there for unauthorized use, but the problem that we are looking at in this discussion is authorized users.

MR. ODOZYNSKI: I am asking if state contract law is preempted by *Feist* and *Bonito Boats*, what effect of those cases on state criminal law that would, apart from contract, that would render unlawful unauthorized access.

MR. SHEILS: I think the perception is that we do not think the contract law is preempted, but with respect to the second point, the criminalization or criminal trespass into computer databases, is not the subject matter of copyright law. It is different. It is a theft. I think you argue that those clearly fall outside the section 301 preemption notions because they don't address the same types of activity.

MR. SCHATZ: That is indicated specifically in the legislative history. It says: "Likewise a person having a known trust or other relationship with a proprietor of a computerized database should not be immunized against sanctions for electronically or cryptographically breaching the proprietor's security arrangements and accessing the proprietor's data." This type of behavior would not be preempted at all. I think that's very clear.

PROFESSOR LANGE: Wait a minute. What is this guy doing, reading law?

MR. SCHATZ: No. Legislative history.

THE CHAIRMAN: That is legislative history of section 301?

MR. SCHATZ: It is the House Report on the 1976 Copyright Act.

MR. CARSON: Do you always carry that with you?

MR. SCHATZ: No. It just happened to be in my briefcase.

PROFESSOR REICHMAN: This is going to be a lot trickier than you think. I think it opens a big can of worms. Even your characterization of the adhesion contracts and all that goes with it has been limited a little bit by Section 211 of the Restatement (Second) of Contracts with regard to nonstandard terms, and it would also be the same as the Restatement's approach to contracts against public policy. Without going into that, there are two limitations I do want to put before you. First, you may be going too far when you try to limit the uses that I can make of this information after I have paid you for the privilege of using it. This is especially questionable if you try to characterize my uses as infringing uses because they deviate from conditions of the license obtained from you.

A second big problem is going to be burdens on research, particularly when the information is distributed through libraries. We are accustomed to broad leeway for research workers, but now you say to

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them, we are not going to give you a blanket license for research purposes, we are going to require that you apply a pay-per-use clause to every single use for anybody who comes in this library. Meanwhile, the librarian is thinking, if this were covered by copyright law, it would be fair use for researchers to make copies for their personal use. The librarian wants to say, I will not always pay you because I have got to take care of a whole university, a whole bunch of noncommercial users who normally would be able to make photocopies for their private research purposes.

So, as I point out in my paper tomorrow, we are going to come up very squarely against public interest limitations that are built into the copyright law. We are either going to try to contract around them, directly and in the teeth of the copyright law to the extent that the work is copyrightable, or we are going to say, this matter is not copyrighted, so you librarians cannot impose your public interest exceptions. That is going to raise very serious problems about how far you are going to be able to burden research, how much you will be allowed to burden certain uses that are now fair. Whereas measuring these uses entailed high transaction costs in the past, you are now going to be able to eliminate these transaction costs in a heretofore unthinkable extent, but you are also going to burden uses of these works for certain social purposes that were heretofore possible at acceptable costs. You are going to make them unacceptably expensive and burden the whole research apparatus. And that is one of the areas where we are going to have some real tension.

MR. SHEILS: Well, I think the issue is just that. How far can you go; to the extent that a copyright or a database proprietor does want to have a per use restriction on every use of each item of data subsequently used by the licensee, you run into some fairness issues there. I think that is certainly an issue that online database proprietors have to be aware of when they draft these use restrictions. But I think it all goes to the issue of whether or not the contract and the end user or subscriber reasonably expects to be restricted in that way and if there is a commercial justification for that restriction.

MR. STEELE: Paul [Sheils], could I just explore that for a second? If indeed you move into a land of shrink-wrap licenses or something equivalent, your comments about adhesion contracts and fairness of the terms is very important.

Do you think that goes more to the substance of the fairness, or does it go more to whether the copyright owner makes the use restriction clear, irrespective of their reasonableness?

MR. SHEILS: Clearly the former. I think they have to be reasonable from an objective point of view. It is not that they were simply

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made clear by the online proprietor to the licensee that these are the terms.

I think that the commentators and case law make absolutely clear that these contracts are suspect because they generally are not read, and what the courts have attempted to do is impose some mechanism for determining whether or not they are fair, and that introduces a notion—I do not think it goes all the way to whether or not it is socially acceptable to do it—to use the term that has been used here, but I think it goes to the notion of whether or not the recipient reasonably expected the restriction.

I do not think the courts will get involved in notions of whether or not the freedom of contract between two consenting businesses should be burdened by what that particular court's view is of what is socially good in terms of something as mundane as access to a database. I think the notions of fairness come in terms of whether or not the recipient himself, herself, or itself, reasonably expected it.

MR. STEELE: I am not sure I understand your answer. It seems to me that one of the key components to a shrink-wrap license ultimately being held enforceable is the degree to which and means by which those terms are made very clear to the purchaser. Maybe in some cases those terms are somewhat "unreasonable" in the context of the position other publishers have taken, but if those terms are very explicit, what do you think a court is going to do?

MR. SHEILS: I think maybe I misunderstood your hypothesis. Was the restriction sent after the purchase?

MR. STEELE: Before.

MR. SHEILS: I think the court will say the subscriber, or purchaser in this case, was adequately warned of the terms and conditions that applied to this purchase. If he did not like them, he could go elsewhere.

To the extent that they are unreasonable, I do not think the courts will analyze it in terms of social good. I think they will analyze it clearly in terms of expectations, and if there is prior notice, if there is a clear understanding on the part of the subscriber that what used to be subject to simply copyright has now got all these other restrictions, and if he knows that and still buys, he should be bound.

MR. STEELE: Just to change the subject for a minute. Are you saying that in order for license restrictions to be enforceable, the work has to be copyrightable, or are you saying that even if it is not copyrightable, for example a work where that issue was litigated, the license restrictions are still enforceable?

MR. SHEILS: Clearly, the latter. There are distinct areas of protection. You do not have to have copyright to get contract protection.

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PROFESSOR REICHMAN: Why do you say that one can go elsewhere? We are not talking about general purpose databases. Generally, you are talking about research—highly specialized research-oriented services for universities and libraries. And if the publishers all have the same kind of copyrights or impose the same contractual terms, they can all prevent what would have been copies at affordable costs for the research purposes beyond a blanket license, or beyond what you had to pay for a subscription so that everybody could freely use the source in that department. Now, regardless of the nature of the subscription, users might have to pay for every use. Even though the costs to our research departments soar, we cannot go anywhere else, because all providers impose the same restrictions. That sounds to me like there could be no market choice.

And the public interest favors research—education and research are socially beneficial uses that enjoy a different, more favorable regime. Can you really contract around them?

MR. SHEILS: To the extent that you have a tremendous demand for a given piece of information without restrictions and that piece of information or that database or that research can be duplicated that you will find someone very quickly who will provide it to you without those restrictions for probably lower costs than the people who are essentially getting together and restricting it. Certainly that is the way the markets might work.

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