Chaos -- UCITA: A Bad Law Protecting Bad Software

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Chaos — UCITA: A Bad Law
Protecting Bad Software

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Bryan Carson presented an excellent summary of the history and development of the Uniform Computer Information Transactions Act (UCITA) in the December, 1999-January 2000 issue (Against the Grain, Legally Speaking pp. 54-58). That article identified several objections to UCITA:

- Restrictions on lending and transferring of software and databases
- Allowing the producer to make significant changes to the product without allowing the licensee to cancel the contract
- Giving software manufacturers the right to disclaim all warranties of sale
- Providing immunity from lawsuits for defects in the program, even if the manufacturer knew about the defect but declined to fix the problem
- Allowing the vendor to choose which court it can be sued in (and under what law)
- Intellectual property issues
- Legalization of “self-help” procedures
- Determination of the type of products that are covered by UCITA, i.e. the scope of the term “information”

This article explores these objections in more detail because, if UCITA becomes accepted, it will become the first recourse that courts will look at for rules and guidelines in interpreting license provisions and resolving disputes regarding a software license. It also has the potential for widespread impact.

UCITA focused initially on the software industry; but it also affects the information technology industry, public and private libraries, the music industry, data processing service providers, publishers of statistical data, traditional print publishers, online database providers, and consumers of information. In fact, UCITA extends to nearly all information transactions.

Restrictions on Lending and Transferring of Software and Databases

Traditional copyright law focuses on the sale of copies. UCITA, on the other hand, focuses on the license. UCITA represents a movement toward the licensing of information in a variety of formats rather than the purchase and ownership of that information. In so doing, UCITA allows for the strict enforcement of “mass-market licenses” which are the “shrink-wrap” and computer “click-on” licenses that most computer users do not read or ignore by automatically clicking through the screens in their rush to install the product.

The copyright law, under which the library community currently operates, tries to balance the rights of the information owner and of the information user. It protects the principles and privileges of fair use, preservation, and the unhindered use of works in the public domain. By shifting the balance of power away from copyright law toward contract/license law, UCITA (Section 502) could endanger those principles and privileges. For example, a click-on license could eliminate fair use and related exemptions.

By this shift in the balance of power in mass-market transactions involving information products, UCITA also strengthens the ability of vendors to dictate terms in standard form contracts that are difficult for consumers to negotiate. We should also note that UCITA defines a consumer in very narrow terms. According to UCITA, a customer is “an individual who is a licensee of information or information rights that the individual at the time of contracting intended to be used primarily for personal, family, or household purposes. The term does not include an individual who is a licensee primarily for professional or commercial purposes, including agriculture, business management, and investment management other than management of the individual’s personal or family investments.” So, the purchase of a product for both home and office use is not a consumer transaction under UCITA.

Many shrink-wrap licenses prohibit any form of transfer of licensing rights from one entity to another without the software publisher’s permission. UCITA also prohibits the sale or transfer of shrink-wrap software to other parties, including donations to charity. This forces businesses undergoing reorganizations or ownership changes to strip off all PC software or face the legal and technical costs of identifying, renegotiating, or removing specific restricted licenses. Software publishers state that they have a valid interest in preventing piracy; and it’s easier to do so if they can prevent businesses and consumers from selling used software. Software buyers could be held liable for millions of dollars in damages if the publisher claims that trade secrets were compromised during the transfer. Buyers of books or videos have long enjoyed the right of resale. However, software publishers have long been reluctant to acknowledge that their customers have such a right. Some have even taken active steps to prevent users from exercising that right.

Most software licenses include transfer restraints, one of which is usually the charging of a fee for software transfer. However, transfer fees can be as much as 50 percent of the original licensing fee, making it a very expensive proposition and discouraging such transfer. Likewise, the costs of monitoring license agreements and policing for unauthorized software can be staggering. Because U.S. companies generate much of the world’s shrink-wrap software, those costs will escalate dramatically in the global environment.

Allowing The Producer To Make Significant Changes To The Product, Without Allowing The License To Cancel The Contract

UCITA Section 304 allows manufacturers to make changes to software that may change significantly the way that software operates. This approach to software licensing has been referred to as “sneak wrap.” UCITA uses the term “access contracts” to specifically allow contract provisions (such as a company’s relationship with an ISP) to be modified at a later date. This provision could allow a telephone provider to downgrade service and charge more for it after posting a temporary message in an obscure corner of their Web site, for example. UCITA would not allow a customer to terminate the contract if he or she objected to such a change.

Consider a periodical aggregator, for instance. The number of titles indexed in a product can fluctuate from month to month as can the fullness of content, depending on the rights secured. If a librarian becomes dissatisfied with a product because of these changes, he or she cannot cancel the contract with the aggregator even though the product may differ substantially from that which was initially licensed.

A vendor can exert more control on the use of a product by licensing it rather than selling it. However, constraints on the use of information in mass-market transactions can result in constraints to the use of information for important public purposes such as democratic speech, education, scientific research, and cultural exchange. UCITA appears as a threat to information exchange and fair use.

Giving Software Manufacturers the Right to Disclaim All Warranties of Sale

In essence, UCITA makes whatever a software manufacturer chooses to put on its product the final word on its use. UCITA weakens the existing requirement that software warranties be pari passu with their express representations. UCITA, however, does recognize a warranty of noninfringement on software products that are created by the user, acknowledging the unique situation of custom software.

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license agreement a legally binding contract. This grants software vendors far too much power. A vendor can legally withhold important terms until after a sale or package a license inside a box so the buyer cannot view it until after a purchase. Someone may not discover there's no warranty until after opening and installing the software. In these cases, vendors interfere with the kind of informed assent required today in contract law and prevent a buyer from recovering damages.

Many users would prefer making licensing decisions after a sale, at their leisure. Consumers and businesses should be able to receive a refund if they disagree with license terms. However, under UCITA (Section 403), once the license is agreed to (at the time of opening the package), it constitutes a contract.

UCITA even contains a clause that restricts public discussion or criticism of products or of the information contained in them. Nondisclosure and beta agreements have laid the foundation for restricting free speech under contract law. UCITA would further prevent journalists and reviewers from doing their job in comparing products and writing critical reviews to inform their readers about software strengths and deficiencies. Under UCITA, would someone be able to represent software bugs to the press without violating the license agreement?

This might seem far-fetched, but consider that Oracle and several of its competitors have long had terms in their standard contracts that forbid the customer from disclosing results of any benchmarks it runs or publishing reviews of the product without Oracle's consent. Although Oracle's license is a signed contract and not shrink-wrap, other companies include terms similar to Oracle's in their shrink-wrap licenses.

Who knows if UCITA might also lead to the censorship of other material? This is not limited to the issues surrounding materials with "adult" content or those related to Internet filtering. UCITA grants large commercial entities the freedom to erect barriers to the free flow of information on the Internet. That's because under UCITA, "computer information" (which will probably cover any type of information eventually) is a commodity that certain players own and others license temporarily. Only those who have the time and legal resources to do so will be able to overcome those barriers. Moreover, no other industry in the U.S. gets to enforce post-sale warranty disclaimers.

This clause raises several issues, such as:

- whether federal or state courts should exert the greater influence over the development of digital information law, including software licenses;
- whether existing intellectual property laws (which seek to balance ownership rights with public interests, such as competition, transfer, archival, and other fair use of technology) are adequate or whether we need further information technology laws; and
- whether it's better to rely on laws that have grown up around non-software information industries or to group all information industries under the same legal umbrella.

Providing Immunity From Lawsuits For Defects In The Program, Even If The Manufacturer Knew About The Defect, But Declined To Fix The Problem

While software has often been treated as regular goods (covered by Article 2 of the Uniform Commercial Code), UCITA (originally proposed as Article 2B of the UCC) changes the rules of the game. Any merchant selling goods with a known defect without warning customers is usually held responsible. UCITA Section 406, on the other hand, allows software publishers to market software with known bugs without being sued for consequential damages. Under UCITA, a software publisher may be aware of a bug and have a fix available but need not notify a customer unless one asks. After all, software crashes all the time. Limitations on damage only encourage software developers to rush products to market first, at any cost.

Software publishers, especially smaller players with too much risk, claim they operate under stricter rules than other industries because perfect software doesn't exist. They want customers to bear the risk of bad software instead of the companies responsible for the defects. UCITA would relieve vendors from having to check their products for defects, such as viruses. They could also avoid paying for any damage caused by a virus by including a simple disclaimer of implied warranties in a product's documentation. Customers don't even see this documentation until after they have bought and installed the product, and few will read it.

This clause could even let software publishers charge a nonrefundable per-minute fee for technical support — even for defects that they knew about at the time of shipment.

If institutional legal departments have to review every software release before installation, costs could mount up quickly as would the costs of negotiating license agreements back and forth. Other options would be to develop software in-house, also a costly option; resorting to inferior software, or not buying software with untenable license terms. Washington University law professor Charles McManis says that UCITA "creates such a powerful unilateral contract tool in shrink-wraps that the public has virtually no opportunity to negotiate more favorable software licensing terms."

UCITA could encourage class-action suits and raise software prices. It also puts the costs of diagnosing, repairing, removing, and dealing with faulty software — even software that corrupts business systems — on the business's shoulders. One must prove that a publisher was intentionally deceptive to collect damages. That isn't likely to be the case if the publisher simply failed to do any testing. Moreover, the very existence of a warranty disclaimer makes proving fraud difficult.

Allowing The Vendor To Choose Which Court It Can Be Sued In (And Under What Law)

UCITA Section 110 would enable software companies and other information product providers to require that consumers bring all claims against the software company in a state of the software company's own choosing. This makes the location particularly important since the selected forum may be far away from where the consumer lives or it may have laws more favorable for a particular company or industry. For example, the Canadian company Corel, producer of WordPerfect, has selected Ireland as its legal forum.

In essence, this provision allows software companies to select the particular law to be used in litigation. It also safeguards publishers from having to travel all over the world to litigate. Enforcement of choice of state law terms means publishers will usually choose the states adopting UCITA.

UCITA provides strong incentives to litigate most license cases under contract law rather than intellectual property law. Intellectual property law cases are usually tried in federal court. State courts are most familiar with contract law and will probably give preference to it because UCITA focuses on the licensing of digital information as part of a free contract.

Since contract law can be used to negate protections in federal law, UCITA's opponents fear the erosion and loss of rights protected by the copyright law. They also fear that the state courts will uphold the one-sided, one-handed handshakes predominant in today's shrink-wrap and click-wrap licenses. They also fear that the courts will enforce the many unjust terms prevalent in software licenses. The threat of legal action can cause businesses and consumers to abide by terms that are fundamentally unfair. In the event of an appeal, the only recourse would be to bring the matter to the U.S. Supreme Court — an expensive and unlikely option.

Several corporations in Iowa, concerned about this provision, are promoting so-called bomb-shelter legislation to protect Iowa customers, consumers, and businesses from UCITA or UCITA-like laws in other states. The bomb-shelter law wants to reverse UCITA's provision and make Iowa laws applicable to transactions between an Iowa party and a party that tries to invoke the law of a UCITA state. The Iowa House passed an amendment to this effect as part of its Electronic Transaction Act (HF 2205). The bill now awaits consideration by the Senate; but it has stirred up a hornets' nest among software...
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ware industry lobbyists who are swarming into the state.

Intellectual Property Issues

UCITA's text makes no specific mention of intellectual property law and the public interests it safeguards. Nor does it take into account the intermediary role of libraries. It would undermine the public policy of making information available to the general public on a shared-use basis. It would also create new layers of costly procedures for libraries as it would require more time and money to educate library staff, negotiate licenses, track use of materials, and investigate the status of materials donated to libraries.

We already mentioned that UCITA prohibits the sale or transfer of software to a third party. This may also make donations to libraries illegal at the same time it restricts transfers between third parties. Consider the case of a customer who purchased Caere Pagekeeper Pro 3 and decided that it did not meet his expectations. Not realizing the product came with a 30-day money-back guarantee, he removed Pagekeeper from his system and put it up for auction on eBay, complete with the original CD, manual, and box. He received a notification from eBay that the auction was cancelled at Caere's request. Caere quoted a copyright law that, if interpreted their way, would mean the closing of all used book stores, used CD stores, used software stores, and probably public libraries.

Caere informed the customer that "According to the U.S. Copyright Act, it is illegal to distribute copyright material (which includes software) without specific authorization from the copyright owner." Caere's shrink-wrap license includes a provision that prohibits all transfers of any kind; and the company's policy statement only authorizes Caere resellers to auction Caere software on eBay.

The customer filed a counter-notice under eBay's appeal process. Caere backed off; and eBay allowed the customer to list his copy of Pagekeeper along with a warning that Caere still believed he was infringing on its license.

UCITA (Section 501) opens the door to a software publisher who wants to get more business from a customer to extort a little more money just to keep using the software (and the data) he already has. It also allows publishers to force buyers to upgrade to new versions of software, when they become available, by automatically disabling the software at a set time or under certain conditions. UCITA Section 816 calls this provision "self-help." While it may be self-help for publishers and producers, it certainly does not help consumers.

Legalization Of "Self-Help" Procedures

Electronic self-help gives publishers the right to electronically "repossess" software for non-payment of bills or to remotely dis-
Determination of the Type of Products That Are Covered by UCITA, i.e. The Scope of the Term “Information”

UCITA understands “computer information” to include everything from copyrighted expression, such as stories, computer programs, images, music, and Web pages, to other traditional forms of intellectual property such as patents, trade secrets, and trademarks, to newer digital creations such as online databases and interactive games. While UCITA claims to be limited to information in electronic form, it allows other transactions to “opt-in” to being governed by UCITA. Electronic commerce portals, computer hardware vendors, and maybe even automobile manufacturers could “opt-in” to UCITA’s provisions if they wish.

Consumer advocates are concerned that practices allowed by UCITA will spread quickly beyond the software industry. UCITA is so broad that it even includes mass-market licensing of electronic books which can be eventually extended to include printed books. It can even cover materials and information in the public domain, including those already protected by intellectual property law.

UCITA’s Status

The National Conference of Commissioners on Uniform State Laws (NCCUSL), a group of over 350 commissioners appointed by their respective states and charged with drafting laws that can be adopted uniformly by all the states, voted on UCITA at its annual meeting in Denver, July 23-30, 1999.

The Recording Industry Association of America (RIAA), one of the publishing groups that had been voicing strong opposition to UCITA, stated openly that it was willing to take a neutral position on UCITA’s enactment if the NCCUSL would adopt its changes. Even though committee members did not understand the meaning of the RIAA’s language, they did not even bother to get clarification before adopting it. One committee member said: “The most important thing is the affected industry wants it, so I move we adopt it.”

Affected industries could generally get what they wanted; but not affected customers. This became evident in the discussion of a revision to UCC Article II (sale of goods law) which was up for a final vote at the same July meeting. The NCCUSL leadership stumped proponents and opponents by deciding to table the draft for at least another year because it was too consumer-friendly. (The article is on the agenda for the NCCUSL’s meeting on August 1, 2000.)

While courts have often ruled that software is a form of goods and governed by laws governing sales of goods, under UCITA, a software transaction becomes a license of computer information and not a sale of goods. Thus, software consumers lose rights they had before.

Opposition

Despite opposition from library and consumer groups, the NCCUSL voted July 29 to approve the Uniform Computer Information Transactions Act (UCITA), not as Article 2B of the Uniform Commercial Code, but as a proposal for adoption by the states. Forty states approved UCITA, six opposed it, two abstained, and two were not present at the voting. The proposal is now before the various state legislatures for approval. Most of the states typically approve the laws recommended by the NCCUSL.

A coalition of five different library associations wrote to the NCCUSL prior to their approval of UCITA: “We believe that … UCITA presents an overly simplistic view of the marketplace for information. For example, with UCITA, one is either a licensee of information (a consumer) or a licensor (an information merchant). This model fails to incorporate important features of the market for … the ongoing roles of players in that market who are neither consumers or merchants. Libraries do not fit into the binary system of UCITA, nor do educational institutions or many commercial entities. A primary goal of many libraries is to provide information to people of all ages and backgrounds, in part to raise the education level and provide important resources to the broader community. … The approach and terms of UCITA challenge the very core of these fundamental activities of libraries.”

As UCITA makes its way through the individual state legislatures, an organization called 4CITE, For a Competitive Information and Technology Economy, is spearheading opposition to it. 4CITE members comprise a broad mix of corporate and non-profit entities that one would not expect to see collaborating together. They include the American Library Association, the Society for Information Management, Computer Professionals for Social Responsibility, the Electronic Frontier Foundation, Principal Financial Group, Caterpillar, John Hancock, and some publications like InfoWorld.

This new organization has little funding and is looking for individual and organizations to lend their name, their political influence, and possibly some money to help convince state legislators of the widespread opposition to the legislation. The software industry can expect to recover every dollar it spends on UCITA many times over through the law’s enforcement of warranty disclaimers, sneakwrap modifications to terms, and so on. 4CITE will never be able to outlobby or outspend the software industry; but it is doing its best to raise the consciousness of decision makers and legislators to the dangers of UCITA.

Virginia was the first state to adopt UCITA in mid-February, 2000, where it passed overwhelmingly almost without debate. Few legislators read UCITA. They relied on the recommendation of the technology commission that studied it. However, the membership of the commission was dominated by representatives of the technology industry and the chairman of the committee who drafted UCITA. Opponents of UCITA made the legislators uncomfortable enough to add a provision that the law was not to go into effect until July 1, 2001.

Maryland became the next state to pass UCITA and the first state to enact it. UCITA became effective there on October 1. Delaware, Hawaii, Illinois, Oklahoma, and the District of Columbia are also considering it. 4CITE was effective in raising the consciousness of several Maryland legislators who considered several amendments to significantly disarm UCITA; but the law, as passed, contains mostly cosmetic changes, leaving all the most serious clauses intact. Maryland also created an oversight panel to provide ongoing review of UCITA.

Proponents of UCITA are selling it to state legislators with the idea that the first state to enact it will attract high tech companies and jobs to the state, under its vendor friendly law. However, the result may be just the opposite. UCITA makes it very easy for companies that aren’t based in a UCITA state to choose a UCITA state’s laws as the ones that govern their shrink-wrap licenses. A consumer in Alaska could purchase a copy of a software package made by a California-based company and discover the shrink-wrap license is governed by Virginia law. Assuming Virginia doesn’t change its mind, after July 1, 2001, UCITA would govern any dispute between that consumer and that software company, even if neither Alaska nor California have passed it. At most, a company wanting to take advantage of UCITA would probably just have to incorporate there, much as many corporations do now in Delaware.

UCITA may also encourage some of the high-tech talent to leave an early-adopting state. High-tech professionals dislike UCITA intensely because many of them have experienced situations in which the quality of the product they helped produce was excessively compromised to get it out quickly. UCITA would remove any restraints on software companies in terms of their legal liability for putting out poorly engineered, poorly tested products. The IEEE and Association of Computing Machinery (ACM), the two most prestigious organizations representing the engineering/programmer community, both oppose UCITA as do many other organizations representing software industry professionals such as the Software Engineering Institute, the American Society for Quality, and the Free Software Foundation.

Those who drafted UCITA have always ignored this opposition and it appears that the state legislatures are following suit.

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Evolution

The Huxley File offers some 1000 items, some more obscure and difficult to locate letters and observations, collected and made available to educate those who may not know and offer formerly difficult to access items to those who are familiar with Thomas Henry Huxley. Charles Blinderman and David Joyce, both of Clark University, have compiled a color coded index which leads to all sorts of fascinating glimpses into the life of the man who dubbed himself "Darwin's bulldog" as he vigorously defended Charles Darwin's theories. Huxley also coined the term "agnostic," was a talented sketch artist, and wrote on all manner of subjects from "Has a Frog a Soul?" to the ideal school curriculum. Browse and enjoy! — http://idephilo.clarku.edu/huxley/.

Genetics

The full text of an out of print book, Mouse Genetics by Lee Silver, is now available from the Jackson Laboratory in Bar Harbor, Maine. A mainstay of genetics labs, the Web text includes original figures and tables along with added links to MEDLINE and the Jackson Laboratory's Mouse Genome Informatics database. The audience ranges from students planning their first experiments to researchers looking for technical answers. — http://www.informatics.jax.org/silver/.

Neuroscience

The Biomedical Informatics Research Network (Birn), an initiative of the National Center for Research Resources (NCRR), aims to create a testbed to address biomedical researchers' need to access and analyze data focusing on research involving neuroimaging in an intelligent, directed cross-correlation of such studies. Coordinated at the University of California, San Diego, the three-year project will help neuroscientists study brain diseases including Alzheimer's and Parkinson's. — http://birn.nimh.nih.gov/birn/.

Reference

"The world's most comprehensive dictionary of medical eponyms" claims Who Named It?, a site maintained by Ole Daniel Eneersen. Despite the disclaimers, the two advertising links, and lack of information about the author, the site boasts an impressive list of entries that detail not only biographical information, but also include alternative eponymous names for particular conditions even when obsolete, collaborators, and includes references for the sources of information. Still under development, the site hopes to eventually include over 15,000 eponyms and 6,000 persons. Search by name or eponym, browse the nifty alphabetic index which includes the Swedish A with diacritic, or check out links to the "Eponym of the day" which gives five latest entries, and the latest "hard numbers" detailing statistics for total eponymic entries, total number of persons and number by gender. — http://www.whonamedit.com/.

Not only can you convert anything to just about anything else at this site, but you can also do amusing and fun things like convert your name to Morse code or figure out how many days until you can retire. With the caveat that no calculation is guaranteed (don't bet your life on it), users can discover that 1 inch = 0.125037 teaspoons (US) or 0.133337 teaspoons (UK); that 1 kilopound (kg-force) = 2.204622 pounds; or that 1 Fathoms = 6 Feet. — http://www.onlineconversion.com/.

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By making the common usage restrictions embedded in shrink-wrap contracts enforceable, UCITA provides content owners with an end run around the principles of fair use and of the rights of content owners and users. It favors large software vendors instead of the end users and businesses. It protects those who have the most money and influence—and the least need of protection. The only interest group that will benefit from UCITA in the long run will be the lawyers who represent big companies. As UCITA passes in some states, both small and big companies alike will have to keep track of where UCITA is or isn't the law for their computer information.

For More Information

The text of UCITA (www.law.upenn.edu/bll/slc_UCITA/UCITA200.htm), along with its drafts and other documents under consideration or approved by the National Conference of Commissioners on Uniform State Laws (NCCUSL), can be found at www.law.upenn.edu/bll/slc/ucframe.htm. The ARl Web site (www.arl.org) contains a lucid digest of this complex legislation. Another good starting point is www.baisoftware.com. Ed Foster, a columnist for InfoWorld, has been following UCITA from the beginning. Among his many articles about UCITA is an excellent summary of consumer concerns in the May 31, 1999 issue of InfoWorld (archive.infoworld.com/UCITA). He also maintains an excellent background page (www.infoworld.com/UCITA) that provides a brief explanation of what UCITA is, a background piece on its importance, links to InfoWorld stories and columns on UCITA, a list of the main issues that concern opponents, and a list of many of the groups opposed to UCITA. It even suggests the text of a letter to send to state legislators or to the governor. UCITA is not a battle libraries can afford to lose.