Biz of Acq-To License or Not to License-That Really Ought to Be the Question

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Biz of Acq — To License or Not to License: That Really Ought to Be the Question

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Column Editor’s Note: Of the many changes that the electronic information revolution has brought to library acquisitions, perhaps none is as significant as the licensing agreement. For centuries, copyright law set forth the legal parameters under which libraries appropriated and disseminated information products and services. Librarians grew accustomed to operating under the stipulations of copyright statutes. As electronic resources have become integral to the library collection, however, libraries have suddenly found themselves parties to legally binding contracts with publishers or vendors, contracts which often grant libraries more limited rights than under copyright law. In recent years, librarians have taken a proactive position towards the new regime of licensing by educating themselves about contract law, and sharing information about the most effective methods for negotiating favorable contract terms with electronic information providers. In this month’s column, Rick Anderson, Head of Acquisitions at the University of North Carolina at Greensboro Libraries, enriches this conversation by offering publishers and vendors a model for deciding when to implement a license for an electronic resource, and valuable advice for improving licensing relationships with libraries.— RR

Let me start by relating a true story. Here’s the background: our library had purchased a programming instruction manual on CD-ROM. In accordance with what was then a new policy, I had reviewed the license agreement that accompanied the disk and found a couple of terms to which we couldn’t agree. So I called the publisher, got passed around from phone to phone for a while, and was finally handed over to a hapless soul we’ll call Mike (I can’t even remember what department he worked in). Our conversation went something like this:

Me: “We’ve purchased a CD-ROM product of yours and need to discuss the terms of the license.”
Mike: “What?”
Me: “Your company requires that we enter into a terms-of-use contract with you when we purchase your product. That’s fine, but we need to discuss the terms.”
Mike: “You mean the license agreement that we put in the box with the disk?”
Me: “Exactly.”
Mike: “Um... okay, what are the problems?”
Me: “Well, first of all, the license says that our sales agreement is to be governed by the laws of the State of New York. UNCG is a state institution and I’m legally forbidden to agree to terms like that. We’ve got to either take that clause out altogether or change it to read ‘North Carolina.’”
Mike: “I can’t agree to that myself. I’ll have to take this to our legal department.”

Me: “Sure, I understand. Do you want my number so you can call me back?”
Mike: “Look, this is crazy. You’re talking about a $100 product — we can’t afford to get into legal negotiations for every sale this size; we’d go broke.”
Me: “Yeah, I can see how that’s a problem. But I guess it’s the risk you run when you make a written contract a part of every $100 sale. The thing about contracts is that they’re binding on both parties, so both parties need to be able to participate in their creation. By the way, once we’re done negotiating this license agreement, we’ll need to get someone’s signature on it. We’ll sign it too, of course, and fax you a copy.”
Mike: “Let me call you back.”

 Needless to say, he never did, and we ended up giving the disk to the academic department that had originally requested it for the library collection, with the instruction that it be kept and used by the requesting faculty member (assuming that he or she was willing to abide by the license terms).

What Was I Thinking?
Was I crazy, as poor Mike undoubtedly believes? Why on earth would I go to all that trouble over a boilerplate license agreement attached to a product that cost so little?

In fact, as we all know, librarians have often disregarded licenses in the past. The thinking, I believe, has been along the lines of “Well, the stuff that happens in libraries is pretty much all fair use anyway. Besides, who knows if these licenses are even enforceable?” The problem is that thanks to recent legal decisions, many unilateral licenses (including the shrinkwrap and electronic “clickwrap” varieties) now are regarded as legally binding contracts. So all of a sudden we librarians are getting nervous about the agreements into which we enter on behalf of our institutions every time we buy a CD-ROM for the collection or sign up for an online service. And now that we’re reading those agreements, lo and behold, we’re finding terms in them to which we’d be fools to agree—or to which we’re legally prevented from agreeing. Our thinking is now changing from “Terms of use? Yeah, continued on page 69
okay, whatever” to “You want us to sign a contract as well as give you our money? Fine; prepare to negotiate.”

Not surprisingly, this has led to a number of interesting, even comical situations, such as the one I recounted above. To be fair, that conversation wasn’t exactly typical. Database vendors, for example, are usually much more flexible, mainly because their products often cost several thousand dollars and they expect customers to be more careful in the selection and purchasing process. The problem is that for libraries, the price of the product is more or less irrelevant. When it comes to licenses, what matters is not how much we’re paying for the item itself, but the terms of the contract. If we agree, for example, to indemnify the publisher against all claims of third parties arising out of their use of the product, we’ve foolishly opened ourselves up to potentially limitless expense whether the product itself costs $25 or $25,000. It’s certainly true, as my friend in the publisher’s office said, that publishers can’t afford to put a lawyer on the phone every time they sell a $100 CD-ROM. But it’s equally true that libraries can no longer afford to simply lie down and submit to whatever license terms the publisher sees fit to impose.

Sounds like a standoff, doesn’t it? Publishers often can’t afford to negotiate the terms for certain licenses, and customers can’t afford not to. So what’s the solution?

Well, it depends. But there’s one option that I think has been insufficiently explored by publishers and libraries alike, and that is—get rid of the license!

Now, wait a minute—before you write me off as some sort of weird, crypto-utopian, anti-intellectual-property flake, let’s back up a bit and talk about the relationship between licenses and copyright law.

License and Copyright Law

Imagine that you’ve just bought yourself a 2,000 page professional handbook and it’s sitting on your desk. What governs your use of that handbook’s content? Copyright law, of course. Copyright law says, basically, that although you own the physical medium in which it’s printed, you don’t actually own the intellectual content of the book itself and you can’t, say, copy that content and distribute it to all your friends or resell it as your own work. The person (or corporation) who does own the content is protected in two ways, one of which is intentional and the other unintentional: intentional protection is provided by the law, which threatens punishment if you infringe on the rights of the copyright holder. The unintentional protection—which is every bit as real and probably more effective in practical terms—comes from the format of the book. It would take quite a bit of work to copy a significant chunk of those 2,000 pages and then use the copied information in a way that would hurt the copyright owner. Of the two barriers, one legal and the other practical, I would argue that the latter is the more significant in real life. I’m not at all convinced that whatever integrity copyright enjoys in our society today is due to copyright law, which is fairly toothless and notoriously difficult to enforce. I think it’s primarily due to the awkwardness of physical copying.

Now imagine that you’ve just purchased that same professional handbook in CD-ROM format. What governs your use in this case? For a CD-ROM there are usually two sets of rules involved: first, copyright law, which is the same whether the content is printed on paper or encoded in plastic, and second, an additional set of terms printed on a separate contract or presented in a click-through window when you access the software itself. Why this second set of restrictions? Because the physical barrier to copyright violation which exists in the print
context does not exist in the electronic context. Anyone with the right hardware (which is to say almost half of American households) and a moderate amount of computer expertise (which is to say 80% of the American population under the age of 15) could copy and redistribute significant chunks of that CD-ROM quickly and easily.

Authors and publishers know this. In addition, they understand that copyright law by itself provides them little real protection against the theft of their livelihoods. Absent the physical barriers to piracy inherent in print publishing, they have good reason to be very nervous. And that's why, when you try to purchase access to an online journal or database, you get presented with a five-page legal document telling you what you can and can't do with the product and its contents. A lot of the things you agree not to do are perfectly permissible under the law, but the publisher wants you to agree not to do them in order to safeguard its investment. Sometimes they ask you to contract away some of your "fair use" rights; other times it means agreeing to take certain security measures in your institution or restricting access to a certain class of user.

To License or Not to License?

I think we can all agree that there's nothing the matter with license agreements in theory. Those who make a living creating information have a right to protect their work; copyright is all about control, and copyright law is manifestly insufficient to provide very much of that. A license provides more control by bringing the force of contract law to bear on a mutually agreed-upon set of very specific restrictions that help prevent piracy. It's often much easier to prove in court that someone has broken the specific terms of a contract than to prove a significant copyright violation.

Wait a minute—I just said "mutually agreed-upon," didn't I? That doesn't sound like it describes a typical license. Licenses are usually written by the publisher, who expects that the purchaser will (at most) simply skim over the document and tacitly agree to its terms by starting to use the product. The problem is that licenses are contracts, and as we've seen, adding contracts to the sales equation can create headaches for you when your customers realize what's going on.

Risk and Investment

What I'm trying to get at here is that while licenses are certainly justifiable and in many cases probably necessary, in many other cases they may well be unnecessary. What distinguishes the two situations? I suggest that it's the juxtaposition of risk and investment. Where you've invested a lot in your product and there are significant incentives pushing someone to steal it and maybe even to resell it, you'd better protect your product well. But some products cost so little to produce that you have little investment to protect and a license will simply eat away at profits unnecessarily. Other products, while representing considerable investment, are aimed at such a narrow audience that there is little risk of piracy; without a license someone could steal the content more easily, but if resale is unlikely or would be unprofitable, you're probably fine without a license.

Let me illustrate using a diagram and a couple of hypothetical examples. The first example is New Paradigms in Spot-Welding, a professional journal which is marketed to academic readers in a narrow subfield of theoretical plumbing. This publication has, as one might imagine, a small readership, and it's expensive to produce. However, piracy is unlikely, since even if it were successfully accomplished the market is too small to make it profitable. The situation can be represented this way:

<table>
<thead>
<tr>
<th>Risk of piracy is high</th>
<th>Risk of piracy is low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in the product is high</td>
<td>Investment in the product is low</td>
</tr>
</tbody>
</table>

In this case, the publisher would probably be wise to protect its investment by using a license agreement. Why? Because it has spent a lot of money getting the content to market and there's lots of incentive for people to illegally copy and redistribute it. It would probably not be wise to rely on copyright law alone for protection against piracy.

Other types of publication which should probably always be protected by licenses:

- For-profit online research journals (investment is usually high, and so is risk)
- Any online publication that relies significantly on advertising revenue—advertisers are paying for access to your readers, so you have some responsibility to keep the readers where the ads are (publisher's investment is variable, but advertisers' investment is high; risk is variable)
- Any online publication that deals with dangerous, secret or classified information (investment is variable, risk is high, and what are you doing publishing online any way?)
- Online aggregation services that provide access to many different sources of proprietary information (investment is high, risk is high)

The bottom line is that the higher your investment and the greater the risk of piracy, the more you ought to worry about the additional protection a license agreement provides. The license will cause you continued on page 72
to invest more in the process of selling and
distributing the product (since assuming lib-

erians like the author will call you up
and make you negotiate terms), but the pro-
tection will probably be worth the invest-
ment. The logical corollary to that rule,
however, is that the less money you have
tied up in the product and the less likely it
is that someone else will want to steal it
(or, if piracy is likely, the less likely that it
will actually hurt you), the less likely it is
that you're going to realize benefits from
making your customers submit to license
terms. That hasn't always been so, because
a license agreement hasn't always been a
barrier to sales. But if you sell to libraries,
you're probably finding it increasingly diffi-
cult to get your customers to just accept pre-
fabricated license terms. Partly it's because
the librarians have wised up on their own,
and partly it's because the lawyers that work
for their sponsoring institutions have forced
them to wise up.

When You Must License and Your
Customer Must Negotiate

Where it does make sense to add a li-
cense to the selling process, you can make
your life—and your library customers'—
much easier by bearing in mind several key
points:

- Your customers will want to negoti-
ate terms, so be prepared. You may have
found that in the past, you've been able
to define license terms unilaterally and cus-
tomers have simply agreed to them pas-
vively. That is changing, at least as far as
libraries are concerned. They simply don't
have that luxury anymore. If you're going
to put them under contract to do certain
things with your product beyond simply
paying for it, be prepared for them to insist
on having a say in what those certain things
are. One important way of being prepared
is having a specially designated in-house
contact to whom librarians can be referred
with license issues. Too much publisher and
library time is currently wasted trying to
figure out who needs to talk to whom.

- If you sell to both library and non-
library customers, the needs of the two
groups will be different. So should the li-
censes. Libraries use publications very dif-
ferently from the way individuals do and
operate under different fiscal and legal re-
strictions, so expect that libraries will in-
sist on different terms. It would be wise, if
your market can be divided into large, gen-
eral categories (individuals, corporations,
public libraries, academic libraries, etc.) to
come up with different versions of your li-
cense in recognition of the varying needs
of those groups. The relatively small invest-
ment you make in coming up with a library-
tailored license ahead of time will pay off
in time saved during individual negotiations
later.

- Private and state institutions vary
widely in what they can and cannot agree
to in licenses. However, here are a few terms
to which no wise librarian will agree, whether it's allowed by law or not:

1) Indemnification. You shouldn't ex-
pect libraries to protect you against the
claims of third parties in exchange for the
privilege of purchasing your product. If
someone else sues you, you're on your own.
In fact, if anyone should be indemnified in
this relationship, it's the library—the pub-
lisher, not the library, is the party making
representations about its ownership of the
product.

2) Unreasonable termination rights.
No library should agree to a license that
allows it to terminate access on the basis of
any breach (rather than a material breach)
or without notice. If there's a significant
breach, the library should be notified and
given sufficient time to correct it.

3) Jurisdiction. No library should agree
that the license will be governed by the laws
of the state where the publisher has its head-
quarters. In return, the library won't insist
that the license be governed by its state,
either. Just leave such clauses out.

4) Express disclaimers of warranty.
You can disclaim all you want, but you'd
better make sure that the license doesn't say
that your product need not conform (at least
broadly) to its advertised description. It
would be pretty silly for a librarian (or an
individual, for that matter) to agree that
once the money is paid, the seller has no
responsibility to provide a working prod-
toc. Too often, that's exactly what these
disclaimers actually say.

5) Responsibility for all use. Although
it's fair to insist that libraries take reason-
able steps to inform patrons of the rules and
to enforce those rules, libraries simply can-
not realistically be held responsible for the
actions of their patrons. If a patron hacks
into your system and does you damage, it's
between you and him, even if the hacking
behavior happens to take place in a library.

Conclusion

The answer to the question "To license
or not to license?" should, in all cases, be
a carefully considered one. You don't need a
license because you're publishing electroni-
cally—you need a license because your in-
vestment and the risk of piracy are high.
Librarians understand that licenses are of-
ten necessary, but increasingly they will
insist on working with you to protect their
and their patrons' interests. Publishers who
eliminate licenses where possible and who
are prepared to work with their customers
when licenses are necessary will make life
easier for all involved, including them-

Further Reading

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Endnotes

1 See ProCD, Inc. v. Zeidenberg, 86
F.3d 1447 (7th Cir. 1996) and Hill v.
Growth 2000, Inc., 105 F.3d 1147
(7th Cir. 1997). The April 15, 1998,
draft of U.C.C. 2B-208(a)(1) in-
cludes language that specifically ap-
proves the use of "shrinkwrap" li-
censes.

2 Of course, risk itself has two di-
ensions: there's the dimension of prob-
ability (how likely is it that someone
will want to steal the informa-
tion?) and the dimension of harm
(how much will it hurt if someone
does steal the information?). A high
probability of piracy may not be a
problem if such piracy would create
little harm. But in order to avoid clut-
tering up my diagram, let's assume
that "high risk" means that either
probability and harm are both high,
o: that harm is high enough that even
a low probability justifies taking risk
into account.