This topic is complementary to the previous one. While in case of anti-copying devices, the means to prevent copying (lawfully or unlawfully) are technological, the same result may be achieved contractually through means such as shrink-wrap and click-wrap licences. Such licences raise two main areas of concern: are such contracts valid and enforceable under contract law and if so, are they also viewed in the same light under copyright law? The bid to find the answers has lead to a number of public policy considerations—should consumers be legally bound by such licences which attempt to override the limits placed by copyright law on exploitation by the right-owner under all circumstances or should public policy and economic considerations dictate that nonetheless some boundaries must be defined on the extent to which such licences may contractually override the protection given by copyright law.

A. Introduction—Can adhesion contracts override copyright limits?

1. Introduction

Traditionally, to exploit their copyrights, right-owners have commonly relied on contracts to determine how and to what extent their works may be used; for example, there may be a condition prohibiting rental\(^1\). Such contracts were typically entered into after arm’s length negotiations between the right-owner and his licencsee whilst the end-user of the work was prevented by the principle of privity of contract from having a direct legal relationship with the right-owner. The use of standard form\(^2\) contracts in order to bind users of copyright works is a relatively recent phenomena. The use of adhesion contracts in copyright transactions really began in 1980’s with shrink-wrap licences for software products and thereafter for databases; and then spread dramatically with the advent of the Internet in 1990’s. Digitisation and the availability of worldwide networks resulted in easy cheap and perfect reproduction and dissemination of every kind of work

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\(^1\) The author would like to thank Professor P. Maggs for his comments on US law.

\(^2\) Spoor, General aspects of exceptions and limitations: general report, in L. Baulch, M. Green and M. Wyburn (eds.) ALAI Study Days—The Boundaries of Copyright: its proper limitations and exceptions, Sydney, Australian Copyright Council, p.27–41 (1999), at point 6: Circumventing the exceptions. This example relates to the time when authors had not been given the right of rentals; Hürgenhoftz, Code as code or the end of intellectual property as we know it, Maastricht J. of Eur. and Comparative law, vol. 6, n. 3, 308 (1999).
(books, music, software, newspapers, databases...). This development and the frequent use of adhesive contracts have made it possible for the right-owner to establish a direct contractual relationship with each and every end-user, binding them in a very speedy and cost-effective manner. Such contracts regulate the delivery of content to users and determine the conditions of use of a work with such ease and at such low cost that many right-owners have jumped on the band wagon. Their use have become such a ready and easy means for right-owners in search of greater rights, so much so that it has added to and even supplanted the current copyright protection. Not only can users rely on copyright to control the use of works but, even better, they can craft their own conditions to do the same. The fundamental problems with these standard form contracts are: they are drafted exclusively by the right-owners and are thus extremely one-sided and contain restrictions which go far beyond the boundaries of protection given to right-owners by copyright law; they prevent users from certain uses, for example from quoting the work or making a parody of it. This situation is rather ironic the term 'licence' means the "formal authority to do something that would otherwise be unlawful".

While the factual landscape has changed, the legal one has remained quasi identical. This due largely to the fact that the use of standard form copyright contracts is relatively recent. Hence, their impact on the limits that copyright law has placed on the right-owner right of exploitation is still unclear. The underlying purpose of copyright law is to strike a balance between conflicting interests; of authors to receive remuneration for their effort; and of society to be entitled to a free flow of ideas, information and commerce. As has been correctly pointed out in other contributions to this book,, this delicate balance has been tipped by recent developments in the widening of ambit of copyright law. For instance, the form of protected works has been extended to include computer programs and databases; the exclusive rights have been expanded; and the term has been lengthened. This leads one to the inevitable conclusion that the rights owner is well protected. Hence, it seems unconscionable that he should be given greater liberties to protect himself contractually. Should s/he be allowed to contract out of the limits under copyright law? For instance, should the right-owner be able to prevent redistribution of the work in opposition to the doctrine of first sale? Should s/he be allowed to forbid reproductions for research purposes or quotations altogether? Should copyright limits be mandatory so that public policy can then dictate that there shall not be any derogation of grant, or are such limits only to be applicable by default only?

This paper attempts to answer the question whether restrictive standard form copyright contracts are valid. By restrictive copyright contract, we mean a contract which overrides copyright limits. Limitations on copyright are the idea/expression dichotomy; the originality requirement; the term; the exhaustion principle and the

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3 Spaor, above fn. 1, point 6.
several exceptions or limitations to the author's exclusive rights. Even if individually negotiated contracts still remain used, the discussion will be limited to the validity of adhesion contracts for at least two reasons. They are by far the most wide-spread for the delivery of works\(^6\) and for this reason, they are potentially the most problematic. In order to determine whether restrictive copyright adhesion contracts are valid, two interrelated questions must be answered. The first is whether adhesion contracts restricting copyright limits are valid in U.S. and European contract law (section I.1) and copyright law (section I.2). This will be an analysis of the positive law (de lege lata). If they so are, then the second question is whether such contracts should be allowed to override copyright limits (section II). This will be a discussion of normative law (de lege ferenda). N. Elkin-Koren once said: "Today, more than ever before, we need a theory that defines the boundaries of the freedom of contract in the context of copyright law."\(^7\) This article argues that there might not be a need for a theory but that the answer lies at the very heart of copyright law itself.

II. Are Restrictive Copyright Contracts valid?

1. Validity of contracts under contract law

The adhesion contracts used in copyright transactions are known as shrink-wrap and click-wrap licences.

a) Preliminary Notions

aa) Shrink-wrap licences

Four types of shrink-wrap licences can be identified. Some licences have restrictive terms which are readable before opening the package and thus can be read prior to purchase.\(^8\) The second type of shrink-wrap licence has its terms contained within the box and cannot be read unless the seal

\(^6\) Adhesion contracts tended, already before the advent of digital technology, to be the exception rather than the rule. A commentator estimated however that 98% of all written contracts in the United States are adhesion contracts. See Stauson, Standard form contracts and democratic control of law making power, 84 Harv. L.R. 529 (1971), cited by Burgess, Consumer adhesion contracts and unfair terms: a critique of current theory and a suggestion, Anglo-American L.R. 255 (1986). Burgess (see his fn. 3) believes that since marketing methods are highly used nowadays, this figure is approximately as high in other countries. It makes sense therefore to concentrate in this paper on the effects of the use of standard form contracts since they are by far the most spread nowadays. For an overview of the situation regarding classic contracts, the reader is referred to L. Gubaud, Copyright limitations and contracts, An analysis of the contractual overridability of limitations on copyright (The Hague, 2002).

\(^7\) Copyright policy and the limits of freedom of contract, 12 Berk. Tech L.J 93, at 113 (1997).

\(^8\) For example, adhesions on which the terms of the licence are written are stuck on the back of the box containing the work and invite the purchaser to break the seal if he agrees with the terms. Another example is placing the licence under a clear plastic inside the box containing the copyrighted product so that it can be read in full. An example of such licence is given by Jerrard, Contractual protection of software. A guide to the relevant terms, CL&P, 169, at 171 (1985) (licence for the Multimate program): "You should carefully read the following terms and conditions before opening this diskette package. Opening this diskette package indicates your acceptance of these terms and conditions. If you do not agree with them you should promptly return the package unopened; and your money will be refunded."
is broken. A variant of of both these types of licences displays some terms outside of the package and the rest inside.\(^9\) Finally, some licences only appear on the screen once the software is installed on the computer.\(^10\)

The typical shrink-wrap licence includes the following restrictive terms\(^11\):

- the licence is granted only for personal use
- the software is to be used only on one microcomputer at any given time

such uses are not allowed: making of copies of the diskettes and associated documentation, except for security purposes; altering the software; granting sublicences; and disassembling or decompiling the object code, translating or modifying the software for use with non-compatible hardware.

Of the 4 types of shrink-wrap licences, the licence whose terms the user cannot read before purchase is most popularly used.\(^12\) Unfortunately, questions of contractual validity are fundamental with such types of licences.

\(\text{bb})\) **Click-wrap licences** The click-wrap (otherwise called "click-through" or "click-on") licence differs from the typical shrink-wrap licence in the manner that the restrictive terms are made known to the purchaser before he purchases the product.\(^13\) Generally, the terms appear on the user's screen before the purchaser can download the product in question. A button or icon with the words "I agree" or "I accept" or simply "Yes" are distinctly displayed on the web page. The purchaser clicks and in so doing signifies acceptance of the terms.\(^14\) This difference has drastically affects the enforceability of such licences.

The term "click-wrap" is also sometimes used to describe those situations when the restrictive terms of contract only appears on the screen after the user has bought the product. This is actually what happened on the ProCD case (see below). These involve many of the same issues as shrink-wrap contracts.

\(\text{b})\) The U.S. Position

\(\text{aa})\) **Shrink-wrap licences** Standard contract terms are enforceable under contract law if the purchaser can review the terms of the licence before he purchases the goods or services. The customer's assent to the licence may be express or implied from the party's conduct.\(^15\)

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\(^10\) Germanowski, Is the shrinkwrap licence worth the paper envelope it’s printed on?, Int’l J. L. & IT, Vol. 6, No. 3, 312, at 315; Trompenaars, above fn. 9, 269.

\(^11\) Jerrard, above fn. 8, 171.

\(^12\) For some, the determinative characteristic of all shrink-wrap licences is that the purchaser cannot read the terms of the licence before he purchases the product. See Johnson, p. 98.

\(^13\) Germanowski, above fn. 10, 315: with the click wrap licence, “the terms of the licence are agreed prior to, or at the same time that the contract is agreed to, rather than being introduced to the customer after the contract is formed”.


\(^15\) Restatement (Second) of Contracts, § 18.
Consent can be implied if the party who assents knows or has reason to know the other party may infer assent from her conduct. However, the law does not require that the other party reads or understands the terms. What is required is only that he had the opportunity to review them before assenting. In relying purely on the other party's lack of opportunity to review the term prior to assenting alone shrink-wrap licences should be held invalid.

In fact, the U.S. courts for many years had held shrink-wrap licences unenforceable because a party cannot be bound by terms s/he only has knowledge of after contracting. In 1996, in the seminal ProCD v Zeidenberg decision, the Court of Appeals for the 7th Circuit held otherwise. Matthew Zeidenberg, a professional, had bought a CD-ROM containing a database of around 3000 telephone directories. The database was held unoriginal. The CD-ROM's software, when run on the computer, displayed a notice on the user's screen stating that the use of the database is restricted to non-commercial purposes. There were no licence terms outside the package, only this notice. Zeidenberg ignored the licence and put the database on the Internet. The court found that such shrink-wrap licences are ordinary contracts and are governed by the common law of contracts and the Uniform Commercial Code ("UCC"). In the court's opinion, such practice of disclosure of terms to the purchaser only after payment has been made is common place. Reference was made to insurance policies, airline tickets, theatre tickets all of which include terms appearing on the policy or ticket after contract. The court referred to § 2-204(1) of the Uniform Commercial Code: "A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract." Consequently, "a vendor, as master of the offer, may invite acceptance by conduct, and may propose limitations on the kind of conduct that constitutes acceptance. A buyer may accept by performing the acts the vendor proposes to treat as acceptance". That is precisely what happened in the ProCD case. ProCD had proposed a contract which Zeidenberg accepted by using the software after having an opportunity to read the license at leisure. However, he had no choice since the software had splashed the license on the screen and would not let him proceed without indicating acceptance. So although the district judge was right to say that a contract can be, and often is, formed simply by paying the price and walking out of the store, the UCC does permit contracts to be formed in other ways. ProCD did propose such an alternative way and without protest Zeidenberg agreed. The court found reinforcement for his findings in § 2-606 UCC which states that a buyer is deemed to have accepted the goods if after having had an opportunity to inspect, he fails to make an "effective rejection" as provided under

18 Court of Appeals of the 7th Circuit, 20 June 1996, 86 F.3d 1447.
19 ProCD, above fn.18, at 1452.
§ 2-602(1) UCC. Zeidenberg could have returned the CD-ROM but he did not. This judicial decision does not touch on the question of whether a contract whose terms are unconscionable or which violate a rule of positive law may be declared invalid.

Although heavily criticised, the ProCD decision influenced the drafting of a new section of the UCC, Art. 2B, which then became the Uniform Computer Information Transactions Act ("UCITA"). In view of the specific nature of contracts relating to information, the National Conference of Commissioners on Uniform State Laws decided to prepare a set of specific rules for states to enact. In short, under the draft law, such as in ProCD-type contracts (pay-now-terms-later) are valid if the party who finds the terms unacceptable can return the product and get a refund. Only two states (Virginia and Maryland) have adopted UCITA. In August 2003, the uniform draft law was abandoned completely, thereby removing the possibility of clarifying the law (at least in that direction) all over the United States. The American Law Institute has drafted a new Sec. 2 of the UCC with a new definition of "goods". This new definition excludes "information", but it is not clear how many states will adopt this new provision which is a compromise designed to obfuscate the issue. The ambiguity still remains unresolved. ProCD validates shrink-wrap licences, at least for professionals. A number of decisions have applied its ruling. However the previous case law embodied mainly in the Vault case which rejects the validity of shrink-wrap contracts remains unchanged. Hence, U.S. Courts are split in their opinion on the validity of shrink-wrap licences. Pending the adoption of a new

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20 See Trompenaars, above fn. 9, 271 citing ProCD, at 1449.
21 Some commentators have criticised the ProCD decision because it does not address the issue of privity of contract. See Goodger, Beta plus for effort, beta minus for clarity, EIPR, 636, at 639 (1996); Lea, The impossible intangible: shrinkware software revisited, Comms. L., vol 1, n.6, 238, at 240 (1996). The manufacturer’s licence was just deemed to be a contract per se. Another criticism is that the court held it was sale of goods under UCC but failed to address the question whether software can be regarded as goods (in ProCD, the CD-ROM included not only the software but also some software). See Lea, above, 240.
24 In Hill v Gateway 2000 Inc., Court of Appeals of the 7th Circuit, 6 January 1997, 105 F 3d 1147, the court accepted the validity of a software transaction "pay-now-terms-later". See also Court of Appeals of New York, 13 August 1998, 246 A.D.2d 246, 676 N.Y.S.2d 569 (Brower v. Gateway 2000, Inc.) (in suit for breach of warranty, enforcing shrink-wrap license agreement identical to that in Hill). In Mortenson Co., Inc. v Timberline Software Corp., Washington Court of Appeals, 4 May 2000, 140 Wash.2d 568, 998 P.2d 305, the court held that "Mortenson’s conduct in installing and using the Timberline software was enough to manifest assent to the software licensing terms, binding him to the terms to the extent that they were legal and conscionable". Trompenaars, above, fn. 9, 271. The license agreement, like the agreement at issue in ProCD, was presented on the user’s computer screen each time the software was used, and also was located on the outside of each diskette pouch and on the inside cover of the instruction manuals. There are however some other lower courts who do not follow ProCD, see e.g. District Court of Kansas, 15 June 2000, 104 E.Supp.2d 1332 (Klocck v. Gateway, Inc.).
uniform law clarifying the issue by a majority of states, the position in the United States on whether shrink-wrap licences are contractually valid is still open-ended.

**bb) Click-wrap licences** The earlier discussion has highlighted that these are different from shrink-wrap licences since they allow the other contracting party to assent to the contract only after he has been able to review the terms of the licence, generally by clicking an icon. The terms are presented to the purchaser before he can download the product or before the product can be shipped to him or her. Therefore the thorny question occurring for shrink-wrap licences does not arise. Commentators generally agree that online licences should be valid. Some courts have held online licences valid. In Specht v Netscape, the court, while considering the validity of so-called browse-wrap licences, stated that if a user clicks “I agree” before downloading software, it is sufficient to bind him or her by the terms of the licence. The remaining problem lies in ensuring that the user is legally capable of assenting.

It is worth noting that UCITA had envisaged the problem of validity of online licences and made the requisite provisions. If the online licence presented the terms after the contract was made, the situation was the same as under a shrink-wrap licence, the customer could return the goods and be reimbursed. However, if the terms were presented to the purchaser before the purchase took place, he

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25 Trompenaars, above fn. 9, 274.
26 Germanowski, above fn. 10.
27 Trompenaars, above, fn. 9, 275; Lai, above fn. 14, 91: online licences are enforceable under s. 208 UCC.
28 See District Court of the Northern District of Illinois, 8 May 2000, No. 00C1366, 2000 WL 631341 (In re RealNetworks, Inc. Privacy Litigation); District Court of the Northern District of California, 16 April 1998, No. C 98-20064, 1998 WL 388389 (Hotmail Corp. v. Van$ Money Pie, Inc.). In the Hotmail case, “the court held that users were bound by Terms of Service posted on a web site as a result of their act of clicking on a button saying ‘I agree.’” See Miller, International News—United Kingdom Click-Wrap contracts, CW (1998).
30 The court held that when a user does not click “I agree” to the licence before downloading the software, s/he could not be bound by an agreement to arbitration which was on another web page, even where s/he were asked: “Please review and agree to the terms of the … licence agreement before downloading and using the software”. Johnson, All wrapped up! A review of the enforceability of “shrink-wrap” and “click-wrap” licences in the United Kingdom and the United States, EIPR, 100 (2003). Thus so-called “referral licences” may not bind the user. But also Court of Eastern District of California, 17 October 2000, No. CIV-F-00-5671, 2000 WL 33266437 (Pollstar v. Gigmania Ltd.) enforcing such browse-wrap licences.
31 Johnson, above fn. 30, 102.
32 Trompenaars, above fn. 9, 274.
33 Online licences fell within former art. 2B-208 which dealt with standard forms prepared for and used in a mass-market transaction. Trompenaars, above fn. 9, 279.
34 See also Rowland & Campbell, above fn. 5, 32. It also provided that the consumer could be compensated for any costs involved. “This included any costs involved in returning the product and any reasonable and foreseeable costs of restoring the acquirer’s computer should this prove to be necessary”. Ibid.
had no such right of return. In both cases the validity of the licence was not in question. One possible positive outcome of this section of UCITA is the inducement to right-owners to present their licence terms before payment since otherwise the purchaser may call on his right of return and refund.35

c) The EU Position

In Europe, there is virtually no case law on the validity of shrink-wrap and click-wrap licences. Nonetheless some conclusions can be drawn regarding their validity on the basis of decisions dealing with similar situations.

aa) Shrink-wrap licences Since there have been no judicial decisions in France on the validity of shrink-wrap licences36 very few commentators have discussed this issue. Commentators seem to favour validity of licences so long as the prerequisite that the customer is aware that s/he assents to the terms of the licence when opening the wrapping has been met.37

What is the position in Germany? Although there are no reported decisions on the issue, using an analogy of the invalidity of purchases by standard form contract concluded over a videotext system38, shrink-wrap licences should be invalid. In those contracts, their validity was upheld only when the terms were made known to the purchaser before he buys the product. In addition, courts have ruled that consultation on several pages of videotext of extensive clauses does not fulfill the condition of making the customer aware of the terms of the contract.39 The condition is that the terms must be short and be legible on the screen by an average person. On the basis of this case law it is clear that shrink-wrap licences would not be held valid under German law.

There is no reported case law in England and Wales on the validity of shrink-wrap licences but there is one Scottish case.40 This case has little relevance because the Scottish contract law is different from the English contract law.41 Moreover, the court’s ruling only relates to the validity of the licence between the retailer and the end-user and not between the end-user and the manufacturer. The judgement does not examine the value of the acceptance by tearing a wrapping open.42 Finally, the case is limited to its facts which were quite odd since it is the disadvantaged party who wanted the shrink-wrap to be enforced. Normally, the user would try to escape the restrictive terms of such licence.43

35 Trompenaars, above fn. 9, 281.
36 Girot, La validité des licences de logiciel sous plastique en droit français: les renseignements du droit comparé, 1 DIT 7 (1998).
37 Girot, above fn. 36, 7; Miller, Shrink wraps are enforceable—an opinion, CL&P, 52 (1992) mentions that apparently shrink-wrap contracts are binding in France.
38 Guibault, above fn. 16, 154; Guibault, above fn. 6, 205–206.
41 The doctrine applied in the case (ius quaestitium tertio) is exclusively applicable in Scotland.
42 Girot, above fn. 36, 11.
43 Goodger, above fn. 21, 639.
In England and Wales, it is difficult establish the argument that shrink-wrap licences are valid because of the principle of privy of contract. This principle requires a direct contractual relationship between the parties. Further conditions to be fulfilled for the existence of a contract between two parties are: there must be an intent to create legal relations; an offer; an acceptance; and consideration. Under English law, the acceptance of the offer must also be communicated to the offeror. The 3 parties involved in this matter are the manufacturer, the retailer and the end-user/purchaser. A shrink-wrap licence is granted by the manufacturer. The end-user/purchaser buys software at a retail store and in so doing establishes a contractual relationship with the retailer as opposed to the manufacturer. To establish a contract between the manufacturer and the end-user/purchaser one has to overcome the hurdle of the principle of privy of contract. Does the mere opening the package by the end-user/purchaser create that nexus? Have the other pre-requisites to contract been met?

The simple opening of the package, under English and Welsh contract law, cannot create a valid contract between the manufacturer and the end-user for several reasons. The acceptance of the terms must be communicated by the end-user to the manufacturer. Secondly, the condition of consideration must be met. When the licencee pays the distributor (retailer), there is no consideration flowing between the licencee and the licensor. Payment has gone to the distributor not to the manufacturer. It is doubtful that tearing the wrapping open constitutes consideration (between licensor and licensee).

A third problem with shrink-wraps concerns the incorporation of new contractual terms. It is well-settled law that the terms of a contract will not be binding if they were not incorporated at the time of purchase. In other words, "new terms cannot be included in a contract after it has been entered into unless all parties consent." In many instances when a purchaser buys at a retail store, he only

44 Lea, above fn. 21, 240; Rowland & Campbell, above fn. 5, 27; Trompenaars, above fn. 9, 271.
45 Gallagher, E-commerce contracts, CLSR, 103 (2000); Millard, Shrink-wrap licensing, 3 CLSR 8, at 9 (1987); Rowland & Campbell, above fn. 5, 29; Smith, Tear-open licences, are they enforceable in England ?, CL &P, 128 (1986).
46 Gallagher, above fn. 45, 104.
47 See e.g. Miller, above fn. 37. In the situation where the customer buys software in a shop, the offer is made by the customer when he presents the goods at the cashier. The acceptance takes place when the cashier accepts the money. In such a situation there is an intention to create legal relations and consideration.
49 Goodger, above fn. 21, 636; Trompenaars, above fn. 9, 272; Lea, above fn. 21, 240. It is difficult to find some other ‘act or forbearance’ even if the more generous view of the Court of Appeal of England and Wales in Williams v Roffey is taken (Court of Appeal, 23 November 1989, [1990] 1 All ER 512).
50 Lea, above fn. 21, 240.
51 Rowland & Campbell, above fn. 5, 29.
becomes aware of the terms after payment. This is equally true when the product is purchased by mail order because the terms of the licence arrive with the product whilst payment had already been made and contract concluded. However, it should be noted that it is unnecessary that the user reads those terms, he merely has to know of their existence. In this situation they form part of the contract. "On the other hand, if these terms are not brought to the end-user's notice, or he breaks open a software package not having read the terms of a licence, then these terms have not been incorporated." For instance, imagine the sale of software takes place over the phone and there is no mention at that time of a contractual licence. When the software is received upon delivery e.g. by post, there is however a licence inside the box. Under English law there will be no contract. And there is quite a lot of case law in support of this position. Indeed, even if many English courts have upheld licences where terms are brought to the attention of the customer after the sale (e.g. railway or airline tickets), more recent case law has held that if terms are brought to the attention of the customer after the contract is concluded, they do not bind him. Thus it is not clear whether the result attained in the ProCD decision could be equally tenable in England. It seems more likely that shrink-wrap licences would not be enforceable.

The penultimate problem with shrink-wrap licences is that of adequate warning. "Where a term of the licence imposes a particular burden on the purchaser, this has to be adequately brought to the purchaser's attention at or before the time the product was bought."

Finally, similar to other European countries and the U.S., the contract must in substance be reasonable and fair. The provisions of the Unfair Contract Terms Act 1977 and the Directive on Unfair Terms in Consumer Contracts govern the situation where the purchaser is a "consumer".

There are two arguments against the proposition that such licences should be invalidated by privity of contract or by incorporation of new terms. The first is to create an agency relationship between the distributor and the producer. In this case, the retailer acts as agent of the manufacturer and it would be sufficient to establish a binding contract between the producer that the end-user if the

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52 Goodger, above fn. 21, 636.
53 See also Macqueen, above fn. 48, 202–203: reference to terms should be made at the time of contracting. So a notice made after contracting is ineffective as to the incorporation of those terms in the contract.
54 Rowland & Campbell, p. 29, referring to the Court of Appeal's decision, 14 May 1929, [1930] 1 KB 41 (Thompson v LM & S Railway). See also Lai, above fn. 14, 90: "If the terms and conditions of the licence governing software use are sufficiently brought to the notice of the buyer, he will be taken to have accepted them on the breaking of the seal, and/or undertaking whatever steps necessary to show the manifestation of assent."
55 Lai, above fn. 14, 90.
56 Rowland & Campbell, above fn. 5, 30.
57 Johnson, above fn. 30, 101.
58 Goodger, above fn. 21, 637. See also McKendrick, Contract law (Basingstoke 2003), 194.
59
60 Millard, above fn. 45, 9; Smith, above fn. 45, 129.
end-user communicates his acceptance to the retailer in this capacity as an agent. How can it be said that the end user has communicated his acceptance since it is usual that he opens the package at home or in mail-order situations, he receives the product by post? This is clearly not a case of a bilateral contract with the producer but rather a unilateral contract if it can be argued that the opening of the package constitutes acceptance and consideration. It is uncertain however whether English courts would allow a producer to unilaterally impose the terms of his licence agreement especially if they include sweeping exclusions of warranties and disclaimers of liability. It is not possible for an offeror to impose contractual liability upon the other party by unilaterally declaring that silence will be deemed to be consent.”

English courts have in the past not allowed a manufacturer to impose a contract by ultimatum. It seems likely that English courts would not allow such terms to be imposed on the customer. The solution of the agency is therefore not a panacea.

The second solution is to insert a registration card into the box which the purchaser needs to return signed to the manufacturer, stating he has read and accepted the terms of the licence. If this is done, the contract is complete between the producer and the end-user. However, failure to return the tear off slip means that no contract has been formed. It would thus appear, in this case, that there is no contractual relationship between producer and user. Thus this solution is not infallible either since it requires further action from the end-user/purchaser.

Recently, the law has changed. Sec. 1 of the Contracts (Rights of Third Parties) Act 1999 allows a third party to a contract to “enforce a term of the contract if (a) the contract expressly provides that he may; or (b) subject to subsection (2), the term purports to confer a benefit on him”. Subsection (2) provides that “subsection (1)(b) does not apply if on a proper construction of the contract it appears that the parties did not intend the term to be enforceable by the third party.” Section 1(b) of the Act is most important for software licences, since the software producer will have a benefit conferred on him. Thus “the acquirer of the software, in addition to receiving a licence to use the software, will be subject to restrictions on use contained in the terms and conditions drafted by the third party”. It seems therefore that this new Act has answered several of the

61 Millard, above fn. 45, 9.
62 Smith, above fn. 45, 129.
63 Chancery Division, High Court, 11 December 1903, [1904] 1 Ch. 354 (Taddy v Sterious & Co) and Court of Appeal, 8 July 1904, [1904] 2 Ch. 306 (McCormith v Pitcher). See Millard and Smith, above fn. 45, 129.
64 Millard, above fn. 45, 9.
65 Goodger, above fn. 21, 637; Smith, above fn. 45, 128; Miller, above fn. 37, 52.
66 Millard, above fn. 45, 9.
67 Smith, above fn. 45, 128; Lea, above fn. 21, 240; Millard, above fn. 45, 9. In absence of the return of the registration card by the user, it is difficult to see there is an acceptance communicated by the user to the producer.
68 See also Johnson, above fn. 30, 101; Rowland & Campbell, above fn. 5, 28.
69 Johnson, above fn. 30, 101.
70 Rowland & Campbell, above fn. 5, 28.
earlier arguments against the enforceability of shrink-wrap licences provided the contract was in writing. Nonetheless, the new Act does not deal with the argument relating to incorporation of new terms.

There have been a number of cases dealing with railway and shipping tickets on which standard terms have been printed. The courts have generally given force to them because the purchaser had the opportunity to consider them beforehand (e.g. on timetables) or alternatively could return the ticket and refuse to be bound. On the other hand, there have been other more recent and similar cases, to shrink-wrap contracts where courts had refused to incorporate the new terms because they could not be read prior to contracting and instead were added only after the conclusion of the contract. This leads to the conclusion that in England and Wales the most likely legal position for shrink-wrap licences are that they are unenforceable. In which event, only copyright law is applicable so that copyright limitations cannot be overridden by contractually.

In summary, shrink-wrap licences are invalid or at best their enforceability is unclear. Arguably, their enforceability in Europe will be determined by the following factors:

- "the awareness of the user of the existence of a shrink-wrap licence: is a user aware that the product he ordered is subject to a shrink-wrap licence and if so, is he aware that by opening the product’s packaging he is taken to have agreed to the licence terms?" (requirement of adequate warning);

- "the user’s familiarity with the contents of the licence terms;
- the point in time at which the user informed about the terms."

**bb) Click-wrap licences** Two Directives have been adopted on electronic contracts (the Distance Contracts Directive and the E-commerce Directive) but neither provides any rules regarding the “assent” that is necessary for validating shrink-wrap or click-wrap licences. Online click-through licences should fall within the definition of “distance contract” under Art. 2(1) of the Distance Contracts Directive. Under that Directive, the consumer has certain rights

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72 See Johnson, above fn. 30, 101.


74 Trompenaars, above fn. 9, 273.

75 Ibid.


78 Guibault, above fn. 16, 152; Guibault, above fn. 6, p. 206-207.

79 Trompenaars, above fn. 9, 299; Johnson, above fn. 30, 102. This article defines a distance contract as “any contract concerning goods or services concluded between a supplier and a consumer under an organised distance sales or service provision scheme run by the supplier, who, for the purpose of the contract, makes exclusive use of one or more means of
such as receipt of information about the content of the contract which includes identity of the supplier, main characteristics and price of goods or services, arrangement for payment, delivery and performance and the period for which the offer or the price remains valid. This information must be provided in a "clear and comprehensible manner" (art. 4(2)). He also has a right to withdraw from the contract without any penalty and without giving a reason. The supplier has to give total refund without deduction.\textsuperscript{80} Some categories of contracts though are not subject to a right of withdrawal (art. 6(3)). One such category is "contracts for the supply of audio or video recordings or computer software which were unsealed by the consumer". This refers to those works as embodied in tangible media such as diskettes or CD-ROMs. However, it should also apply to the online supply of such works.\textsuperscript{81} Thus once a consumer has downloaded software on his computer he has no right of withdrawal anymore.\textsuperscript{82} In conclusion, any click-wrap licence intended for consumers must comply with the Directive.

On the basis of earlier arguments on shrink-wraps, click-wraps should be valid in France: the purchaser is always aware that s/he assents to the terms of the licence since he has to actively assent by clicking after having reviewed the terms.

On the basis of the case law relating to contracts formed over a videotext system (see above), provided click-wrap licences fulfil the condition of legibility and succinctness they would be held valid in Germany.

There is no case yet in the UK as regards the validity of online licences.\textsuperscript{83} Particular note of the difference between shrink-wrap and click-wrap licences which lies in the fact that with click-wrap licences the user must read and agree to the licence before downloading the product, should be taken. Thus, it is highly probable that click-wrap licences would be enforceable.\textsuperscript{84} The purchaser knows the terms before contracting\textsuperscript{85} and the problem of privity of contract does not arise since the the end-user contracts direct with the right-owner. The offer is made when the licence appears on the user's computer screen and it would be accepted when s/he clicks "I agree".\textsuperscript{86} Such licences of course would be valid only if their terms are conspicuous and reasonable.\textsuperscript{87}

distance communication up to and including the moment at which the contact is concluded". A "consumer" is defined as any natural person acting for purposes which are outside of his trade, business or profession. "Means of distance communication" are any means which without the simultaneous presence of the supplier and the consumer may be used for the conclusion of a contract between those parties.

\textsuperscript{80} Trompenaars, above fn. 9, 300–301.
\textsuperscript{81} Trompenaars, above fn. 9, 302.
\textsuperscript{82} Trompenaars, above fn. 9, 302.
\textsuperscript{83} Johnson, above fn. 30, 102; Miller fn. 37.
\textsuperscript{84} Johnson, above fn. 30, 102; Gallagher, above fn. 45, 103. This latter author also notes that the English courts could construe e-commerce contracts like contracts made through the exchange of telexes (a court had upheld the validity of such contracts). A contract would be "deemed to be concluded when and where the e-mail accepting the offer is received". Ibid. p. 104.
\textsuperscript{85} Rowland & Campbell, above fn. 5, 31.
\textsuperscript{86} Johnson, above fn. 30, 102.
\textsuperscript{87} Johnson, above fn. 30, 102.
d. Conclusion

In conclusion, while the validity of shrink-wrap licences remain rather uncertain if not completely ruled out in Europe (except perhaps France), those licences are enforceable in the U.S. Click-wrap licences on the other hand appear enforceable both in the U.S. and Europe.

2 Validity of contracts under copyright law

The discussion in this section centres around the question of whether a contract which attempts to override copyright limitations is valid under the principles of copyright law.

a) The U.S. Position

The U.S. Copyright Act is silent on the mandatory character of exceptions. The view is that the exceptions are overridable.\(^{88}\) The U.S. legal system is structured differently and complicated by the fact that it is a federation. Under their doctrine of pre-emption, when state law runs contrary to federal law, federal law must prevail. Since contract law is state law, whilst copyright law is a federal matter, a decision on the enforceability of a contract has to take into account the overriding federal copyright laws. There are two ways in which a contractual clause can run afoul of the pre-emption doctrine. In other words, the clause can either be pre-empted by Sec. 301 of the Copyright Act or by the Supremacy Clause of the U.S. Constitution (Art. VI § 2). However, as shall be demonstrated, the pre-emption doctrine does not give clear guidelines as regards the enforcement of restrictive copyright contracts.

Sec. 301 of the Copyright Act, which is federal law, pre-empts all state “legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103”. Therefore there are two pre-conditions for a state-created right to be pre-empted: the right must relate to a work which is fixed; and the right must be equivalent to the copyright exclusive rights. Since the first condition is generally met, the courts have had to determine when rights are equivalent to the copyright rights. They have ruled that they are not equivalent when there is an “extra element” beyond those necessary to prove copyright infringement. This means that a right is equivalent and therefore pre-empted if it is infringed simply by the mere act of reproduction, performance, display or distribution of the work.\(^{89}\) However simple this test may appear, in practice, courts have had difficulties applying it because the legislative history of Sec. 301 is confusing. A draft of Sec. 301 originally listed a number of causes of action such as misappropriation, breach of confidentiality and breach of contract, which should not be pre-empted. Then

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\(^{89}\) Guibault, above fn. 16, 157; Guibault, above fn. 6, 234–235.
this list was deleted from the section because there were concerns over the inclusion of the misappropriation cause of action in the list. Thereafter when the act was adopted, the House Report stated that “nothing in the act is meant to derogate from the rights of parties to contract with each other and to sue for breaches of contract.”

This latter statement seems to suggest that contract causes of action should not be pre-empted while the erasure of breach of contract of the list would seem to suggest on the other hand that contracts can be pre-empted.

Even if a contract right survives the Sec. 301 pre-emption, it must still pass the Supremacy clause test. The clause states: “This Constitution, and the laws of the United States which shall be made in pursuance thereof; and all treaties made, or which shall be made, under the authority of the United States, shall be the supreme law of the land; and the judges in every state shall be bound thereby, anything in the Constitution or laws of any State to the contrary notwithstanding.”

Under the clause, “a particular cause of action may be pre-empted if its enforcement would stand as an obstacle to the accomplishment of the full purposes and objectives of Congress.”

How have the courts applied these two concepts in cases concerning restrictive copyright contracts? In ProCD, the court of appeals found the first condition of section 301 was met: the database of telephone listings was within the subject-matter of copyright even if it was not protected by copyright because it was not original. As regards the other condition, the court simply said that rights created by contract are different from rights granted in the Copyright Act.

Breach of contract is the extra element which makes the contract escape pre-emption. The court explains why contract and copyright rights are not equivalent: “A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create “exclusive rights.””

However, the court emphasized that it thought “it prudent to refrain from adopting a rule that anything with the label ‘contract’ is necessarily outside the pre-emption clause.” The ProCD ruling was confirmed in a recent case.

In Bowers, the defendant Baystate contended that the Copyright Act pre-empted the prohibition of reverse engineering embodied in

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90 Guibault, above fn. 16, 158; Guibault, above fn. 6, 234–235.
91 Guibault, above fn. 16, 161 citing Founds, Shrink-wrap and click-wrap agreements: 2B or not 2B, 52 Federal Communications Law Journal 99 (2000), at 114. This is known as the implied conflict pre-emption.
92 The court refers to three cases in which the courts held that contract rights are not equivalent to copyright exclusive rights. See ProCD, above fn. 18, at 1454: Court of Appeals of the 8th Circuit, 6 April 1993, 991 F.2d 426, 433, 26 USPQ2d 1370, 1376 (Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.); Court of Appeals of the 5th Circuit, 12 February 1990, 893 F.2d 1488, 1501 (Taquino v. Teledyne Monarch Rubber); Court of Appeals of the 4th Circuit, 11 March 1988, 846 F.2d 923, 926, 6 USPQ2d 1810, 1812 (Acom Structures v. Swantz).
93 ProCD, above fn. 18, at 1454.
94 Ibid., at 1455.
95 Federal Court of Appeal (Mass.), 29 January 2003, 320 F.3d 1317 (Bowers v. Baystate Technologies, Inc.).
Mr. Bowers' shrink-wrap license. The court mentions that most courts have upheld the validity of contracts restraining copying under Sec. 301.96 The court restates that in ProCD, "the court found that the mutual assent and consideration required by a contract claim render that claim qualitatively different from copyright infringement."97 The court upheld the validity of Bowers shrink-wrap licence.

In Bowers, one judge nonetheless dissented. Ryk J. mentioned that only when the contract is freely negotiated is the extra element fulfilled and pre-emption barred.98 But shrink-wrap licences are contracts of adhesion and are similar to a state law preventing reverse engineering. Ryk J. finds that the facts of this case are different from ProCD's. As mentioned, in ProCD all the elements comprised in the database remained publicly available. The licence did not withdraw them from the public domain. Here, the judge implied that it is necessary to reproduce part of the expression in the program to be able to exercise the fair use defence. This expression is not available elsewhere. The judge believes that "Vault"99 states the correct rule" and that "state law authorizing shrink-wrap licenses that prohibit reverse engineering is pre-empted".100 Thus he also implied that the licence in this case should have been pre-empted because it was a non-negotiated contract. This reasoning meets the criticisms made against the ProCD decision. In ProCD the court said that contract rights are not equivalent to copyright exclusive rights because they do not create rights against third parties. Many authors are of the view that since the use of standard form contracts has become so widespread that it can be said to constitute private legislation introducing new, absolute rights.101 Not only have their use become so widespread, these standard form contracts very often look so similar that a consumer unsuspectingly allows his freedom of choice to be eradicated.102 At the very least, standard form contracts should be seen as equivalent to copyright's exclusive rights and thus be pre-empted.

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96 The court refers to ProCD, the three other cases to which the ProCD court also referred and Court of Appeals of the 6th Circuit, 6 July 2001, 256 F:3d 446, 457, 59 USPQ2d 1434, 1441-42 (Wrench LLC v. Taco Bell Corp.).
97 At 1325, citing ProCD, above fn. 18, at 1454.
98 Bowers, above fn. 95,at 1337.
99 Above, fn. 17.
100 Id. At 1338.
101 Lemley, Shrinkwrap in cyberspace, 35 Jurimetrics journal 311, at 320 (1995). Elkin-Koren, above fn. 7, 103-104: "In fact, a contract may be formed whenever the potential licensee acts in a way defined as an acceptance by the offeror (the master of the offer). If that method of acceptance is defined by ProCD to be the use of the software, then any stranger who finds the CD-ROM in the street and uses it would become a party to the license agreement. In other words, if the standard of assent necessary to form contractual relationships is minimal, then no unlicensed access to works will be possible. The outcome will be very similar to the effect of a right in rem."
102 Lemley, above fn. 101, 319. "Experience in the computer industry has demonstrated that they unfairly disadvantage users and the general public by allowing one party, the vendor who drafts the license, to set unalterable policy rules. This is particularly problematic because, for a variety of institutional reasons, different software vendors tend to use similar terms in their licenses, destroying even the illusion of user choice."
The ProCD and Bowers decisions are flawed to the extent that the courts did not analyse the application of Sec. 301 of the Copyright Act and failed to consider whether the contract was pre-empted under the Supremacy Clause.\textsuperscript{103} For this reason, it is uncertain whether such contracts can be enforced as a matter of copyright law. Interestingly, in Vault\textsuperscript{104}, a shrink-wrap case preceding ProCD, the court skipped the analysis under Sec. 301 of the Copyright Act and even without mentioning the Supremacy Clause, pre-empted an act which gave effect to restrictions on use included in shrink-wrap agreements and consequently held the restrictions on decompilation in Vault’s licence unenforceable. To pre-empt the Act, the court referred to patent-related cases in which the Supreme Court held that “when state law touches upon the area of these federal statutes, it is ‘familiar doctrine’ that the federal policy may not be set at naught or its benefits defined by the state law.”\textsuperscript{105} Therefore if the analysis in Vault were applied to ProCD’s facts, it would appear that the licence would also pre-empted. This is because ProCD was restricting the use of information as such (in contrast to a copyrightable work) that both the Supreme Court (in the Feist case\textsuperscript{106}) and Congress (in the Copyright Act) decided to leave unprotected.

Since the ProCD and Bowers cases are the most recent judicial decisions it would seem that they have laid down the law in the United States. As such, similar licences would be held enforceable even though the judgements in those cases did not take into account the Supremacy Clause or the Supreme Court patent-related cases. In my opinion, the Vault decision and the decision of Ryk J., the dissenting judge, in the Bowers case are the correct decisions and such adhesion contracts should have been pre-empted. Whether the direction taken in these two earlier cases will be applied in future decisions is left to be seen.

b) The EU Position

Contrary to the position in the United States it is not uncommon to have specific legislation on an area of law in Europe. Two Directives have expressly rendered some provisions imperative. Art. 9, second sentence of the Software Directive\textsuperscript{107}


\textsuperscript{104} Vault, above fn. 17.

\textsuperscript{105} Supreme Court, 9 March 1964, 376 U.S. 225 (Sears, Roebuck & Co. v Stiffel Co.); Supreme Court, 9 March 1964, 376 U.S. 234 (Compco Corp. v Day-Brite Lighting Inc.) and Supreme Court, 21 February 1989, 489 U.S. 141 (Bonito Boats, Inc. v Thunder Craft Boats Inc.), cited by Guibault, above fn. 16, 162.

\textsuperscript{106} Supreme Court, 27 March 1991, 499 U.S. 340; 111 S Ct 1282 (Feist Publications v Rural Telephone Service Co.).

states that "any contractual provisions contrary to Art. 6 or to the exceptions provided for in Art. 5 (2) and (3) shall be null and void" while Art. 15 of the Database Directive\(^\text{108}\) states that "any contractual provision contrary to Arts. 6 (1) and 8 shall be null and void".

Art. 5(2) of the Software Directive allows the lawful user of a computer program to make a back-up copy of the software insofar as it is necessary for that use. Art. 5(3) grants the lawful user of a program the right to observe, study or test the functioning of the program in order to determine the ideas and principles which underlie any element of the program, as long as the user does so when loading, displaying, running, transmitting or storing the program. Finally, Art. 6 allows decompilation subject to compliance with certain narrowly drafted conditions, one of them being that only that part of the program necessary for interoperability may be decompiled but not the entire program.

Although Art. 6 is intended to be mandatory in its application, it fact does not have any practical effect. Let us take the situation of when an object code cannot be understood in its entirety. Then, the entire program and not only part of it must be decompiled in order to discover which part of the source code is necessary for interoperability. How then can Art. 6 apply? In such cases it would then appear that decompilation of the whole object code can be overridden by contract.

Art. 6(1) of the Database Directive provides that "the performance by the lawful user of a database or of a copy thereof of any of the acts listed in Art. 5 which is necessary for the purposes of access to the contents of the databases and normal use of the contents by the lawful user shall not require the authorization of the author of the database (...)." Art. 8 (1) of the Database Directive provides that "the maker of a database which is made available to the public in whatever manner may not prevent a lawful user of the database from extracting and/or re-utilizing insubstantial parts of its contents, evaluated qualitatively and/or quantitatively, for any purposes whatsoever (...)"). However, Art. 8(2) provides that "a lawful user of a database which is made available to the public in whatever manner may not perform acts which conflict with normal exploitation of the database or unreasonably prejudice the legitimate interests of the maker of the database." In some situations, anomalies arise in the application of both paragraphs of Art. 8. For instance, if a lawful user re-uses insubstantial parts of a database for a commercial purpose, this may run afoul of Art. 8(2). Hence, it may not be obviously apparent that a lawful user can re-use insubstantial parts without ever infringing the database owner's rights under all circumstances.

Arts.9 of the Software Directive and 15 of the Database Directive are therefore not fully effective. Full imperativeness of some of the provisions of those Directives is not achieved because of the clumsy language of the Directives. It is interesting to note that granting imperative character to a provision is a legislative technique which aims at protecting the contractually weak party against a party considered

in a power situation. However, Arts 9 and 15 do not differentiate between classic fully negotiated contracts and adhesion contracts. All contractual clauses will be null and void if they contravene the respective provisions.

The last relevant copyright Directive, the so-called Copyright or InfoSoc Directive, which could have addressed the issue of the mandatory character of exceptions, remains however silent.

Apart from those provisions of the Directives and their corresponding implementations into laws by the Member States, there are no provisions in the national copyright acts rendering exceptions imperative, except in Belgium. In 1998, the Belgian legislator rendered all exceptions expressly mandatory (Art. 23 bis of Belgian Copyright Act). This Art. states that “the exceptions provided in Arts. 21, 22, 22 bis and 23(1) and (3) are mandatory”. These latter provisions relate to the right to quote, to make reproductions for private use, for news reporting and parodies, the right to make incidental use of the work and the right to lend the work to the public. Similarly to the solution adopted in the Directives, the Belgian lawmaker has made no difference between fully negotiated agreements and contracts of adhesion in respect of the mandatory character of exceptions. It is to be noted that the mandatory nature of exceptions do not confer an access right to users. This access can be subject to conditions such as the conclusion of a licence and the payment of remuneration. There have been very few comments on this change in Belgian law so far.

In conclusion, except where the limitations are expressly declared mandatory, the silence of the national laws can be interpreted in two ways: the exceptions are overridable or they are not. According to one interpretation, since exceptions are an integral part of the copyright balance, if the legislator has deemed it appropriate to carve exceptions in the law, this means that it is not possible to derogate

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110 See also Heide, The approach to innovation under the proposed Copyright Directive: time for mandatory exceptions, IPQ, 215, at 228 (2000).


112 It is worth mentioning in a broader perspective, that the exceptions are considered mandatory not only in Belgium, but also in Denmark, Japan and Mexico. Spoor, above fn. 1, point 6 General report.

113 Dubuisson, above fn. 109, 214.

114 See Strowel, La loi du 31 août 1998 concernant la protection des bases de données, Journal des Tribunaux, 297, n. 24 (1999); Dubuisson, above fn. 109. This latter author is surprised that the legislator has given an imperative character indistinctly to all exceptions, character that supposes the protection of individual interests whereas certain exceptions pursue a general interest. The legislator, in his logic to erect exceptions in rights, could have given to this latter category of exceptions a character of public order (see his fn. 86).
from them by contract. On the other hand, if the more naturalist approach (which prevails in France) is taken, the silence of the law would mean that unless the legislator has declared exceptions mandatory, they are overridable.

c) Conclusion

In the United States, exceptions are overridable in light of the ProCD and Bowers cases, although it seems a correct application of the pre-emption doctrine would result in the opposite being true. In Europe, some exceptions (the right to make a back-up copy of a computer program and to test, study and observe a computer program as well as the right to make restricted acts in order to access and use a database normally) have been expressly stated by the Directives to be imperative whilst some exceptions due to the ambiguous use of language are not clearly mandatory (decompilation exception and right to use insubstantial parts of a database). In Belgium, all exceptions are clearly overridable but it is pure speculation whether other exceptions are overridable in the other European countries.

II. Should Restrictive Copyright Contracts be valid? A tentative solution within copyright law itself

1. Solutions outside copyright law are not satisfactory

L. Guibault has opined that since copyright law has not provided an acceptable answer to the question of whether copyright limitations can be overridden by standard contracts, we should then look to other branches of law. These include civil law (abuse of rights), consumer protection law, competition law and constitutional law. However, her thesis has brought to light that even these other branches of law cannot provide a definitive answer to the issue due to a lack of case law.

So far there have been no competition law decisions in either Europe or the U.S. to give guidance on this issue. At the end of her thesis, L. Guibault concluded that the principles of antitrust or competition law in these two continents are limited and strictly applied; as such they do not always provide a basis to invalidate a restrictive copyright licence.

In European countries, consumer protection is embodied in the Unfair Contract Terms Directive (or in the corresponding national implementation laws)

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115 In Germany, L. Guibault has argued that some limitations should be seen as mandatory. Because the German Copyright Act is subjected to the principle of Sozialbindung (article 14(2) of the Constitution), the Constitutional court has held that while the legislator can safeguard the reward the copyright holder gets from exploiting his copyright, he must also allow reasonable use of the work “in compliance with the nature and the social component of the right”. See Guibault, above fn. 16, 168, citing Bundesverfassungsgericht, 31, 229, 7 July 1990 (Kirchen- und Schulgebrauch), GRUR 1972/08, 481.

116 In this regard, Spoor, above fn. 1, at point 6, notes that in most countries contracting out is allowed: this is the case in Australia, Canada, Finland, France, Germany, Greece, Italy, the Netherlands, Sweden, the United Kingdom and the U.S.

117 For developments on this issue see Guibault, above fn. 6, 245 et seq.
and there have been no judicial decisions in which the fairness of a copyright licence term has been challenged on the basis of abusive clauses or on the general principle of good faith. Whether a contract which circumvents exceptions would be invalid is thus moot \(^{118}\) though L. Guibault thinks that French courts would be reluctant to invalidate such a contract but the German courts would be more willing to do so. In the U.S., it is very difficult to invalidate contract terms under the American unconscionability doctrine.\(^{119}\) The fact that a clause in a standard form contract deviates from the limitations recognised under American copyright law would not appear to be a factor for consideration under this doctrine.

Under the U.S. copyright misuse doctrine, practices which preclude others from developing and creating new works would in L. Guibault’s view, be abusive (for example, a clause restricting reverse engineering or terms precluding the possibility to quote or parody a work). On the other hand, clauses preventing libraries and educational institutions from making copies of works would probably not be considered abusive since such types of uses would be duplicative (they do not create new works). The same finding applies to limitations aimed at reducing or eliminating transaction costs.\(^{120}\) She nevertheless notes that even if there are now more cases applying the misuse doctrine, it remains an exceptional remedy whose scope, in addition, is vague.\(^{121}\) While the application of the misuse doctrine might provide some solution to the use of copyright restrictive contracts, such solution seems ruled out under the French theory of abuse of rights. There is no case law directly on point i.e. stating that it is an abuse of right to contract out of a copyright limitation but speculatively, L. Guibault thinks a French court would not hold such clause abusive.

There are no decisions either under American or European constitutional law which relate to the use of restrictive copyright contracts and which would declare such contract invalid because it contravenes a user’s fundamental right. L. Guibault’s comments are again speculative. She thinks it is difficult to conclude in the abstract for partial waivers but that a total waiver of the exercise of a limitation would probably be held invalid.\(^{122}\) In the U.S., the application of constitutional rights to contracts is even more uncertain although she thinks that in certain cases, a standard form contract could be held invalid because it restricts freedom of speech.\(^{123}\)

In conclusion, resorting to other branches of law has not provided a clear and complete answer to the issue. L. Guibault herself has concluded that legislature should take note of this unsatisfactory state of the law and unambiguously make some exceptions imperative.\(^{124}\)

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118 See Guibault, above fn. 6, 256 et seq.
119 See Guibault, above fn. 6, 261.
120 Guibault, above fn. 6, 285–286.
121 Guibault, above fn. 6, 194.
122 Guibault, above fn. 6, 265.
123 Guibault, above fn. 6, 275.
124 Guibault, above fn. 6, 304.
American academics have also looked into doctrines outside copyright law to try and invalidate restrictive licences. Some have even proposed their own novel doctrines.125 It is impossible to review these doctrines in this book and neither is it our goal. On the contrary, I propose that copyright law itself can provide a more definitive answer to the problem. On the basis of copyright policy alone, at least some exceptions are already imperative in all countries. Many commentators seem also to prefer the copyright solution rather than the consumer law one.126 However, none has developed this assertion. Only a rather small number of European commentators have discussed the relationship between restrictive contracts and copyright works and an even smaller number has done it in detail.127 This is hardly surprising since this a new issue for copyright law. Some have argued that the exceptions should be imperative on the basis of four grounds: (i) the rationale underlying the exceptions; (ii) the exceptions’ legal nature; (iii) the wording used in the acts and copyright goals. An overwhelming majority of those authors also think more or less intuitively that copyright should in certain circumstances prevail over contract.128 Since no systematic analysis of all the possible arguments based on copyright has been made, I propose to do so hereafter.

2. Satisfactory solutions may be found within copyright law

a) Historical Arguments

The first historical argument is that some exceptions are by their nature mandatory so that when legislation was enacted which made them mandatory, legislation was merely stating the obvious. Examples of these are the various Directives referred to subsequently, and the Belgian Copyright Act.


126 "Existing legislation on standard form contracts and consumer protection should not be applicable, because they do not secure the copyright balance between interests of authors and users. Therefore copyright regulation is preferable." See the participants views at Imprimatur Legal SIG Workshop, 1 November 1997, reported in Gubaud/FIVIR, Contracts and copyright exemptions, (Amsterdam 1997), 43. See also Vinje, Copyright Imperilled, EIPR, 192, at 195 (1999): “But relying on such doctrines [abuses of right, consumer protection] is cumbersome and the results of doing so are likely to be rather haphazard. Indeed, the results of applying non-copyright doctrines would seem unlikely fully to reflect the balance contained in copyright law.” See also Wiese, The Justification Of The Copyright System In The Digital Age, 387, at 394 (2002): “Generally, however, copyright law should not be any less capable of dealing with such problems than other areas of law such as consumer protection laws.”


128 See e.g. Goldstein, Copyright and its substitutes, Wisconsin LR, 865 (1997) (only implicitly); Nimmo, Brown & Frischling, above fn. 103; Lemley, above fn. 101; Vinje, above fn. 126; Hugenholtz, above fn. 1; Heide, above fn. 110, 215; Gubault, above, fn. 6; Brydens Dasollier, above fn. 127; Dalcq, La protection des banques de données et le droit des contrats, 9 Rev. dr. ULB 87 (1994); Geiger, Droit d'auteur et accès du public à l'information, Approche de droit comparé (Paris, 2004).
The practice of agreeing to the distribution of copyrighted works with an adhesion contract or licence started only in the 1980's so that the issue of overridability of exceptions was not an issue until then.\(^{129}\) The advent of the shrink-wrap software licences triggered such practice. Not surprisingly therefore, the phenomenon of making exceptions imperative started with the Software Directive, and continued with the Database Directive. Recently, when Belgium began implementation of the Database Directive into its law, Belgium made all its exceptions mandatory. Hence, we observe an emergence of a practice which seems to be a reaction to abuses in software end-user licences and an anticipation of such similar abuses in database licences. Taking the Belgian legislature as an example, it foresaw that the abuse of adhesion contracts will not be confined to software and databases,\(^{130}\) but will be extended to the delivery of all sorts of works on the Internet in digital form through click-wrap licences; and legislature counteracted such abuse by making all exceptions imperative. Of course this first argument in isolation is insufficient to support my proposition that (some) exceptions are by their nature mandatory.

Another argument is based on comparative legal history. Copyright law, because of its internal balance, has already taken into consideration possible abuses by copyright owners; in contrast to contract and competition laws.

At the end of the 19th century, the doctrine of laissez-faire had unleashed such liberties to parties to determine the terms of contract and competition that it lead to such great abuses against the party with less bargaining power that the state had to intervene with regulations though new laws (antitrust law and consumer protection law or modifications in contract laws prohibiting abusive clauses). In the area of copyright, no such additional regulation has been necessary since copyright acts already embody from the outset limits to such abuses of freedom by copyright owners. This point supports my proposition that exceptions and limits have always in nature been mandatory.

However, because of recent practice (i.e. the growing use adhesion contracts), lawmakers would be well advised to prohibit such contracts explicitly in the copyright acts. If this is done so that the regulation of abuses is already enshrined in copyright laws, we do not need to look at other laws (such as consumer law, competition law etc.) for additional regulation.

b) Superiority of Copyright Law: Copyright as a Norm of Public Order

In the U.S., apart from arguing pre-emption, the non-overridability of copyright limits can be based on the Constitution's Intellectual Property clause (Art. I, section 8, clause 8). As was intuitively stated by one author, shrink-wrap and click-wrap licences are not enforceable because they take copyright outside "its

\(^{129}\) This seems to be suggested by Vrje, above fn. 126, 195 as well: "Because direct electronic contracting with consumers of copyright works has never occurred on a wide scale before, neither European legislators nor courts have really been faced with the question of the mandatory nature of copyright limits and exceptions."

\(^{130}\) Griibault, above fn. 16, 166.
constitutionally permissible bounds". 131 The Intellectual Property clause states: "The Congress shall have power to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." Clearly it would be unconstitutional if federal copyright law, and a fortiori a state law and a contract entered into by private parties would provide that copyright lasts for ever. This is a power left exclusively to Congress. Similarly, a federal law, state law or a clause of a contract which does not "promote the progress of science and useful arts" would be anti-constitutional. Of course whether a provision does not promote progress is more difficult to ascertain since it is more vague than the "limited times". However arguably, the definition of the promotion of the progress of science and useful arts has been set out in federal copyright law. Arguably, all the limits set out in the Copyright Act embody this promotion of the progress of science. Contravening the federal copyright statute would thus by domino effect be contravening constitutional law. In other words, if the states cannot legislate in contravention to Congress's laws, then a fortiori private parties cannot do it either. The recourse for the private party to a contract overriding copyright limits would risk challenging the constitutionality of the federal Copyright Act. In at least two famous cases 132, two limits (originality and duration) of copyright have been affirmed by the Supreme Court. It seems doubtful that the Supreme Court would hold that the exceptions and other limits (such as the idea/expression dichotomy) do not participate in the promotion of the progress of science. Therefore, it would seemingly hold at least some of them non-overridable. A similar consideration has been expressed by a famous copyright scholar: "In the U.S., both the purpose for which copyrights are granted, i.e. to promote science and useful arts, and the Feist decision reflect the public order considerations built into the copyright regime. (...) A majority of scholars believe that this emphasis on public order implies that copyright exemptions cannot be overridden." 133 The referral of a case similar to ProCD to the Supreme Court is still awaited to clarify the issue.

This argument is not only valid in the U.S. In the U.S., the promotion of progress is a superior norm since it is embodied in the federal Constitution. A similar principle exists in Germany. L. Guibault believes that because of Art. 14(2) of the Constitution (principle of Sozialbindung), limits and exceptions should be seen as imperative. In Germany, the author's economic rights are generally construed as property rights protected under Art. 14(1) of the Constitution. But Art. 14(2) further provides that the right to private property recognised by the constitution must also serve the public interest. 134 Not every form of exploitation is thus possible. "The legislator has received the task

133 Guibault/FIVIR, above, fn. 126, 35 reporting views of Samuelson.
134 Guibault, above fn. 6, 224.
under the Constitution to weigh the interests of the right owners against those of the users in order to define the contours of the copyright protection and its limitations. It has been argued in support of the "social character of the right owner's exclusive right" that first the author is an individual who relies on the public domain to create and second, that the work, when the author decides to publish it, is meant to be communicated to the public to allow as many people as possible to enjoy it. Therefore the public should have the possibility to have as much as possible the unhindered dissemination of works. If the German legislature had taken into account this public interest there should therefore not be a possibility for private parties to derogate from exceptions.

Case law has confirmed this view. Authors have tried to circumvent the exhaustion doctrine and some exceptions. One of the decisions concerned a notice preventing persons from renting a sound recording. The court of first instance ruled that the copyright owner cannot prevent the renting of a work s/he put on the market. However right holders under Art. 27(1) of the Copyright Act are entitled to receive remuneration for the rental. The Supreme Court opined that if a rights holder was able to prevent the further distribution of the works, it would impede the free circulation of goods in an unacceptable manner. The Explanatory Memorandum to the bill on the German Copyright Act of 1965 stated that the legislator had not intended to allow restrictions on the distribution right. The distribution right did not allow the rights holder to monitor the use of the work once lawfully put on the market. In addition, the right of remuneration for rental and public lending would not have been necessary if the rights holder could prevent rental and public lending of the work. The reasons given in the three instances of this case point at the fact that the limitations can by analogy reasonably be held to be imperative. This has also been confirmed in the Elektronischer Pressespiegel case. According to this decision, neither the owners nor the users can restrict or extend the scope of the limitations to their own advantage. "In other words, the copyright balance must be respected and no one may derogate from the legislator's intent one way or the other."

The above argument will not hold in those countries whose constitutions do not give the same weight to their copyright law. Nevertheless, an analogous argument can be made and applied to both European and American legal systems, even internationally. The argument is that copyright law is superior to the law made by private parties, i.e. contracts since it is a law made in interest of the public, its goal is encouraging creation and promotion of the development of

135 Ibid.
136 Landgericht Munich, 9 June 1983, 12 GRUR 1983, 763 (Vermietung von Tonträgern). This decision was confirmed by the Supreme Court and the Constitutional court.
137 Oberlandesgericht Hamburg, 6 April 2000, 3 AFl 303 (2000).
138 Gabaudt, above fn. 6, 229.
139 See also Vinje, above fn. 126, 195 referring to "the private law of contract and the public law of copyright" even if this author does not develop this idea.
culture and science. In other words, copyright incorporates superior values in a democratic society. The public interest element in copyright law lies in the promotion of the progress of science and the arts which have been embodied in the limits set out by copyright law. Instances of such limits may be found in those provisions in any copyright law which legislate that public order provisions shall override contractual provisions which contravene them. On the other hand, private agreements further private interests which are inferior to public interest. In addition, most contract law rules are default rules. Since the freedom of the parties is above all, the rules in the statutes are generally subject to a contrary provision of the parties. Private agreements should not be allowed to contravene copyright’s important aims. If a private agreement goes against the promotion of this principle, it goes against the public’s interest—against public policy or the public order (“ordre public”), and the public’s interest should supersede any contrary provisions in a contract.

c) Rationale Behind the Exceptions

When the discussion on this issue of the mandatory character of gained momentum in the 1990’s, some rightly felt that “perhaps it would be too blunt simply to provide that all copyright limits and exceptions are mandatory”, but it was also equally unwise to do the opposite. Perhaps each limit and exception should

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140 As shall be seen below (see section II.5, fn. 181), even in continental Europe where originally copyright laws were rather based on the protection and promotion of author’s private interests (the reward for his labour), exceptions similar to those of the American copyright act exist and therefore the underlying goal of promoting progress is also present in continental laws, even if less apparent. Surprisingly, it is in Europe that some exceptions have been made imperative despite this traditional prevalence of the authors’ interests whereas in the United States no such initiative has been taken by the legislator.

141 In the UK, an author does not address this question directly but seems to believe that exceptions are public policy overriding copyright’s exclusive rights. See Bradshaw, Copyright, Fair Dealing and The Mandy Allwood Case: The Court of Appeal Gets the Max Out of a Multiple Pregnancy Opportunity, Entr. L.R., 125 (1999).

142 Guibault, above fn. 6, 116.

143 The public policy or “ordre public” has been defined in different ways but a constant is that the public policy is the social or public interest. See Malaurie, L’ordre public et le contrat (Reims, 1953), 261 citing a number of definitions given by experts and courts: e.g. Duguit, L’Etat, le Droit objectif et la Loi positive I, 566; Hemard, Précis élémentaire I, n. 188: “l’ordre public consiste dans l’ensemble des règles établies par le législateur dans l’intérêt vital de la société”; Planiol: Une disposition est d’ordre public “toutes les fois qu’elle est inspirée par une considération d’intérêt général qui se trouverait compromise si les particuliers étaient libres d’empêcher l’application de la loi”; Portails: la loi est d’ordre public quand elle intéresse plus directement la société que les particuliers. The American and English case law also define public policy as being the reflection of the general interest. See Supreme Court, 4 May 1931, 51 S. Ct 476 (Twin City Line v Harding Glass) (le principe de droit qui affirme que personne ne peut juridiquement faire ce qui a tendance à porter préjudice au public ou ce qui est contraire au bien commun); Tindal C. J. in Horner v Graves, 7 Bing 735 (toute ce qui porte préjudice aux intérêts du public est contraire à la public policy).

144 Vinje, above fn. 126, 195. See also Heide, above fn. 110, 230.
be evaluated on its own merits to determine whether it should be mandatory or not, bearing in mind the underlying public policy considerations of each limit or exception.\textsuperscript{145}

Recently, other European commentators have proposed that after examination of supporting arguments, there can be several categories of exceptions\textsuperscript{146, 147}. The first category would be made up of those exceptions which guarantee fundamental freedoms such as freedom of expression and information, freedom of the press and the right of privacy. Examples are parody, quotation, criticism, news reporting and private uses of works.\textsuperscript{148} The second category is justified by needs of public interests or dissemination of knowledge\textsuperscript{150} or in other words, those exceptions are "intended mainly to facilitate public access to information and culture".\textsuperscript{151} These are the exceptions concerning uses by educational institutions.

\textsuperscript{145} Vinje, above fn. 126, 195. See also Wiese, above fn. 126, 394.

\textsuperscript{146} Guibault, above fn. 6, 27 et seq. distinguishes four categories (exceptions based on constitutional rights, on the regulation of industry practice and free competition, on dissemination of knowledge and on market failure); Buydens & Dusollier, above fn. 127, citing Sirinelli, Exceptions aux droit d'auteur et droits voisins: Atelier sur la mise en oeuvre du Traité OMPI sur le droit d'auteur, Genève, 6–7 December 1999, available on the WIPO web site; Hugenholz, Fierce Creatures, Copyright exemptions: Towards extinction?, in Rights, Limitations and exceptions: Striking a proper balance, Conference IFLA/Imprimatur, Amsterdam, 30–31 October 1997, available on www.ivir.nl; Spoor, above fn. 1, point 4 of the report, distinguish only three categories (exceptions based on constitutional rights, on public interests and on market failure). However Guibault does not make the analysis made by Buydens & Dusollier as regards the imperativeness of exceptions based on their rationale. She only concludes that exceptions based on freedom of speech should be made imperative at least in relation to standard form contracts, see p. 304.

\textsuperscript{147} Some authors are also in favour of the non-overridability of some limits but without giving a justification. Dalcq, above fn. 128, while discussing the relationship between contracts and databases, seems to be in favour of the mandatory character not only of limitations but also of the general limits of copyright, e.g. idea/expression dichotomy and originality. In her opinion, a clause which designates the rights holder of a database prejudices the quality of 'work' of the database and of the information contained in it. Such clauses are without value. Either one recognises to the producer a protection by author's right and the reference in the contract is just declarative of right, the only utility of such clause being to attract the parties' attention on this point, or the database cannot be protected by copyright because it is not a work, and thus the clause cannot have the effect to create an intellectual property right for the producer. See Dalcq, 75–76, citing Denis, Pouillet & Theunis, Banques de données: quelle protection juridique?, Cahiers du CRID 1988, n. 2, 84, n. 146 and Lamy Informatique, 1993, n. 1730. The same author believed that it should not be possible to derogate by contract to the then article 11(6) of the Draft Database Directive which provided the user's right to extract substantial parts for his or her own private use.

\textsuperscript{148} In France for instance, the private use exception is an exception to the reproduction and communication rights. "The use must be restricted to personal or private purposes, there must be no motive for profit and the copies must not be made by a remunerated third party". Guibault, above fn. 6, 50.

\textsuperscript{149} Words used by Buydens & Dusollier.

\textsuperscript{150} Words used by Guibault, above fn. 6.

\textsuperscript{151} Vinje, above fn. 126, 193.
libraries, archives\textsuperscript{152}, museums, persons suffering from a handicap and exceptions for the needs of justice and of the state. Thirdly, there are exceptions based on regulation of industry practice and competition.\textsuperscript{153} They aim either at facilitating trade or regulating competition in any given sector. The exemption for broadcasting organisations to make ephemeral recordings and the exception allowing the reproductions of artistic works in catalogues or exhibitions, auctions and fairs which facilitate trade will fall within this category as would compulsory licences for the broadcasting and recording of musical works. Other exemptions regulating industry practice and competition are press reviews\textsuperscript{154} and reproduction of computer programs.

Finally certain exceptions have been introduced as a remedy to market failure. Market failure arises in situations when authors can neither control the use of the works nor forbid certain uses; in other words when they cannot enforce their copyright. It is the case of private copying and reprography exceptions. Since the authors cannot control the making of private copies by machines (video recorders, copy machines, tape recorders etc.) an exception has been granted to the users as long as some remuneration is paid.\textsuperscript{155} These exceptions are a protection against the practical impossibility of copyright enforcement. However, current technological developments have removed this impossibility. The author can now prevent the digital copying of works. Encryption helps reduce market failure which exists in the analogue world, so that copyright can be enforced. For some commentators the relevance of the privacy argument is gone. There is no more threat of an invasion on the individual's private sphere. This is true for anti-copying devices but not for some devices which can record the duration of a use and how many uses of a work are made by the user. Now what is at stake is the person's informational right to privacy (i.e. the collection treatment and storage of the individual's personal data).\textsuperscript{156} For such uses, the private use exception is not exclusively based on market failure. There remains an important constitutional right to protect.

The private interests of authors should not be allowed to take precedence over those exceptions which reflect values and collective interests. Instead the underlying rationale behind the exceptions should be consulted to determine the status of the exceptions.\textsuperscript{157} As regards the first group of exceptions (i.e. parody,
citation, private copying, criticism, news reporting), which safeguard the fundamental freedoms within copyright, some believe that a character of "ordre public" (public policy) underlies these exceptions.\footnote{Buystens & Dusollier, above fn. 127, 13–14.} Hence, such exceptions should not be limited or else it would put to question the principles from which they derive, i.e. it would annihilate freedom of speech or of the press\footnote{It might be objected that it is always possible to not borrow the expression of an author to express oneself. It is enough to convey the same ideas in different expression. Therefore overriding the exceptions for quotation, criticism or parody are not preventing freedom of speech. However, sometimes the reproduction of the author’s expression is necessary to report or criticize efficiently this person’s work. A reader may have to reproduce the mood, tone or nuances of a work and this may not be possible without reproducing the expression. See Guibault, above fn. 6, 30. The quotation is sometimes as has been pointed out, even “demanded by intellectual honesty, for fear that the author is suspected of deforming the challenged opinions.” See Kérével, Note—Vladimir Jirinovski & Didier Daeninckx, Tribunal de Grande Instance de Paris, 3e chambre, 10 mai 1996, 170 RIDA 315, at 323 (1996).} and as such runs against the grain of a democratic society. Consequently, a contract cannot restrict or prevent a user in the exercise of his freedom of speech. Contracts cannot override norms of public policy.

The second set of exceptions is founded on general interest. The same authors believe that private contract cannot supplant general interest.\footnote{Buystens & Dusollier, above fn. 127, 14.} These exceptions must also be safeguarded.\footnote{Buystens & Dusollier, above fn. 127, 14; Vinje, above fn. 126, 193.} However, since copyright also serves general interest, a balance between the interests of the users and those of the authors should be targeted, for instance by way of an equitable remuneration to the authors.\footnote{Buystens & Dusollier, above fn. 127, 14.} This implies that the exception does not touch fundamental principles of society and is therefore simply an imperative rule, rather than of “ordre public”.

The rationale underlying the exceptions based on regulation of industry practice or the facilitation of trade is less strong as those above. Exceptions based on regulatory practice could therefore be left overridable. On the other hand, those exceptions which regulate competition such as decompilation have already been made mandatory in Europe. It is in the public’s interest that compatible computer programs can be created to enhance public welfare and this can only be achieved through a mandatory exception to the exclusive right of reproduction of the holder of a copyright on a computer program.

The underlying support for exceptions exclusively founded on market failure, do not reflect a fundamental value to society nor to general interest. It disappears since authors can now prevent the digital copying of works and enforce their copyright. Examples of such exceptions are: the exception relating to the ephemeral recordings of works made by broadcasting organisations (Art. 5.2(d) Copyright Directive)\footnote{Note that this exception is classified differently by L. Guibault, as an exception made to regulate industry practice.}; and the incidental inclusion of a work or other subject-matter in other material (art. 5.3(i)) and use in connection with the demonstration or repair.
of equipment (art. 5.3(l)). In the opinion of some commentators, each Member State can be allowed to attribute to these exceptions a default character.

Can such classification be discovered from the reading of these Directives? And if so, can it be implied that the Community lawmaker intended a number of exceptions to be considered imperative?

The Software and Database Directives contain some mandatory exceptions. This shows that the European legislature recognises fundamental interests which cannot be overridden by contract. But the fact that the Community lawmaker only made some exceptions imperative also proves, so it seems, that not all of them are by definition imperative. The Directives could therefore be interpreted in two ways. On the one hand, the exceptions other than those made expressly imperative can be overridden by contract. On the other hand, it could be argued that exceptions close in nature to those made imperative in the Directives should by analogy be imperative as well. The imperative exceptions of the two Directives could serve as models to determine which other exceptions, similar in rationale, are imperative in Europe. But can the Directives be interpreted one way or the other?

The exceptions made imperative in the Software Directive are namely: the right to make a back-up copy, the right to observe, study or test the functioning of the program in order to determine the ideas and principles which underlie any element of the program and the right to decompile also to the same aim. The exceptions made imperative in the Database Directive are the right to perform a restricted act if it is necessary to access to the database and to use the database normally and the right to extract and re-use insubstantial parts of a database's content, for any purposes whatsoever. The most important exception is decompilation, from that exception it seems rather clear that ideas must be left free. The decompilation exception was seemingly made imperative because unrestricted access to ideas is a fundamental principle of copyright law which cannot be overridden. It is absolutely necessary to provide an exception because unlike other works, ideas are not readily seen in a computer program and it is necessary to translate the object code, and therefore perform a restricted act, in order to discover them. Thus enforcing a prohibition to use ideas would not only restrict freedom of expression problems but also prevent the making of compatible computer programs and in addition create patent-like protection for a much longer period.

A contract preventing a user to use ideas is necessarily unenforceable. This exception clearly falls into the first category and is the prime embodiment of the freedom of speech.

The right to make a back-up copy falls into the second category as an archival right. The other exceptions are at the same time extremely important and rather minimalist. The right to observe is not an exception to a restricted right but simply an application of the idea expression dichotomy. The right to perform a restricted act in order to access and use a database is a necessary act if the database

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164 Buydens & Dusollier, above fn. 127, 14.
165 Buydens & Dusollier, above fn. 127, 14.
166 See Vinje, above fn. 126, 195.
is digital (a reproduction will always be made in the RAM of the computer when the database is accessed). The database may also be have to be adapted or modified in order to be used on a certain computer or with a specific computer program. Finally, the right to use insubstantial parts is again not a restricted act since the rights of extraction and reutilisation are defined in the Database Directive as the rights to prevent the use of substantial parts. This latter exception can be compared to the right to use ideas safeguarded in the Software Directive. Therefore, these imperative exceptions safeguard important values (freedom of speech (decompilation, right to test, right to use insubstantial parts of a database), access to information (back-up copy) and right of privacy (make a restricted act to use the database normally)). These values are those proposed by some authors to be recognised as conferring an imperative character to exceptions.

The Software Directive did not contain one more exception, the exception contained in Art. 5(1). This is exception is similar to the exception to perform restricted acts for using the database normally in the Database Directive and provides that “in the absence of specific contractual provisions, the acts referred to in Art. 4 (a) and (b) shall not require authorization by the rightholder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.” (Emphasis added). The Software Directive makes clear that this exception can be overridden by contract. It is in contradiction to a similar exception in the Database Directive which was made imperative. The Database Directive contained other exceptions to restricted acts but they were all optional. It is perhaps therefore not surprising that they were not made imperative. Those exceptions all pertain to the first and second categories as identified above. Finally, the Copyright Directive did not make any exception mandatory although it could have. The fact that the Software Directive allows the overridability of the exception contained in Art. 5(1) combined with the silence of the Copyright Directive shows that the intention of European legislator is confused in this area. All that can be said with some certainty is that the overridability of the general and most fundamental limits of copyright and the sui generis right (ideas and insubstantial parts of databases)\textsuperscript{167} in addition to an archival right are in principle forbidden. It is difficult to say that the intent of the European legislator is that other exceptions are also mandatory by analogy.

\textsuperscript{167} In the U.S., both the purpose for which copyrights are granted, i.e. to promote science and useful arts, and the Feist decision reflect the public order considerations built into the copyright regime. Copyright can be seen as a social bargain to promote knowledge and public access. A majority of scholars believe that this emphasis on public order implies that copyright exemptions cannot be overridden. As a result, there has traditionally not been any interest in distinguishing between public interest based and other types of copyright exemptions.\textsuperscript{168} This perhaps explains the dearth of American commentaries on the imperative nature

\textsuperscript{168} Gutbault/JVIR, above fn. 126, 35, reporting the views of Samuelson.
of exceptions. Their focus is on the application of the pre-emption doctrine to contracts restricting exceptions since this is where the copyright act and the constitution specifically regulate the conflict between state contract law and federal copyright law. However some commentators have argued that some less fundamental exceptions in the U.S. Copyright Act could be overridable.\textsuperscript{169}

A final and important point must be stressed. The question whether exceptions should be imperative only for a class of persons is hardly touched by any of the authors.\textsuperscript{170} Those authors discuss in the abstract and believe that some exceptions are imperative notwithstanding the status of the contractual parties.\textsuperscript{171} It has been observed however that making or consideration of rules imperative generally purports to protect the weak party to a contract.\textsuperscript{172} Perhaps this absence of distinction is not surprising since the Directives did not make this distinction either. In her thesis, L. Guibault distinguishes between standard form contracts and fully-negotiated contracts while discussing the mandatory character of exceptions. We insist once more that the analysis developed in this Art. is valid only for standard form contracts since we have restricted it at the beginning to those contracts only.

This analysis of the justification of exceptions provides a conclusion for exceptions to copyright. Beyond this field, there is even greater dearth of commentaries on the possibility to override more generally any of the limits of copyright\textsuperscript{173} although there are some, albeit rare, decisions. By limits of copyright, we refer to idea/expression dichotomy, the originality requirement, the copyright term and the exhaustion doctrine. Should a contract purporting to restrict the use of ideas be enforceable?\textsuperscript{174} The answer should be in the negative. We have seen that the non-overridability of ideas is the implicit foundation of the decompilation and ‘observation, study and test’ exceptions in the Software Directive. These exceptions have been expressly made mandatory. By analogy, any contract restraining the use of ideas must be unenforceable.\textsuperscript{175} The same reasoning should apply to unoriginal expressions. The rationale behind the free use of unoriginal expression is again freedom of speech.

\textsuperscript{169} Vinje, above fn. 126, 196 referring to the exception for performances of musical works at horticultural fairs.

\textsuperscript{170} Some have also suggested that some exceptions be mandatory in some circumstances and not in others but they have not carried out their analysis further. See Vinje, above fn. 126, 196.

\textsuperscript{171} However, see the reactions of participants to the Imprimatur Congress in 1997. Participants think that the criterion of the status of the parties is important in determining the waivability of exceptions. “The distinction between negotiated and non-negotiated contracts and the regulations of standard form contracts are recommended as criteria for establishing waivability.” See Guibault/LVIR, above fn. 126, 41–43.

\textsuperscript{172} See Dutilhven, above fn. 109.

\textsuperscript{173} One rare author to consider this is Vinje, above fn. 126, 195. See also Dalca, above fn. 128.

\textsuperscript{174} This leaves untouched the protection of (non) original ideas by trade secrets and confidentiality agreements. Such contracts are valid. But for those contracts to be valid they must pertain to secret information. The information must not have been otherwise disclosed.

\textsuperscript{175} Vinje, above fn. 126, 193 also thinks that the idea/expression dichotomy and originality are fundamental limits of copyright. Ibid., 195.
One U.S. case has declared a contract void on the basis that it had meant to put an end to the use of an idea for an excessive duration. In Lasercomb\textsuperscript{176}, a licence prevented the licensee from developing any kind of computer-assisted die-making software. The restraint lasted for 99 years. Lasercomb not only attempted to control competition in an area outside of copyright (the idea of computer-assisted die manufacture), but for a duration which could go far beyond the legal duration of protection.\textsuperscript{177} This decision was not based on the copyright rationale but on the doctrine of copyright misuse. Nevertheless it could be argued that behind limiting the copyright term, there is again a free speech consideration and that such contracts extending copyright’s term should, on the basis of the rationale of the limit, be unenforceable.

Some courts have also held that it was not possible to override the principle of exhaustion either. Twice the Dutch Supreme Court ruled that a restriction preventing the redistribution of a work in contradiction with the exhaustion principle was ineffective.\textsuperscript{178} As has been explained above\textsuperscript{179}, the German courts have also ruled in the same direction but their decisions were based directly on a higher principle established in the Constitution rather than on the rationale of the limits. No doubt the principle of exhaustion is also one of the most fundamental principles of copyright law. Preventing its application through standard form contracts would mean a standstill of the economy. If persons were barred from transferring copies, the freedom of commerce would be deeply affected. It would mean the end of second hand bookshops, the prohibition of making gifts and more importantly even the end of commercial deals (just think of the market of sculptures and paintings). In addition, it seems that restrictions concerning exhaustion would run afoul of the principle of free movement of goods and services as established in Arts. 28 and 29 ECT.

In conclusion, in view of their rationale (freedom of speech and free circulation of goods), no circumvention of copyright limits should be permitted.

d) The Legal Nature of Exceptions
There is some degree of overlap between the arguments which have been put forward for the rationales behind the exceptions and those set out hereunder. A fundamental question here is—are these exceptions rights or simple interests? If they (at least some of them) are rights, then they are of the same level of importance as the author’s rights and as such cannot be overridden by something of equivalent level of importance. Whilst, if they are only simple interests of users,

\textsuperscript{176} Court of Appeals of the 4\textsuperscript{th} Circuit, 16 August 1990, 911 F.2d 970, Lasercomb America, Inc. v. Reynolds.

\textsuperscript{177} Guibault, above fn. 6, 284.

\textsuperscript{178} Hoge Raad, 25 January 1952, 1952 Nederlandse Jurisprudentie 95 (De N.V. Drukkerij “de Spaarnestad” v Leesinrichting ‘Favoriet’— the Leesprieteuille case); Hoge Raad, 20 November 1987, 1988 Nederlandse Jurisprudentie, 280 (Stemar v Free Record Shop—the CD cover had a notice which forbade purchasers to further transfer it to others). See Guibault, above fn. 6, 222–223.

\textsuperscript{179} See section II.2.b
they are on a lower level as the authors’ rights and thus may be overridden. The legal nature of exceptions has been scarcely studied. The majority view of the academics in France for instance is that exceptions are only interests rather than rights. There is a minority of French academics who oppose that point of view using the philosophy of Anglo-American countries where a balance is explicitly sought between authors’ rights and users’ interests. It is consistent then in those countries to speak of user’s rights. However, it is doubtful whether just merely pointing to the wide gap in the philosophy between the two traditional copyright systems is sufficient. Even in an author’s rights systems, humanistic or naturalist justifications are intermingled with utilitarian ones. As a matter of fact, why then would it be necessary to enact any exceptions in naturalist systems if the author is (absolute) king? It is clear that even continental systems take into account the public’s interest when exceptions are enacted.

If copyright is a fundamental human right, then it must be on the same level as other fundamental human rights such as freedom of speech and the right to privacy. For instance, French academics use the term “right” when speaking of exceptions for parody, citation and decompilation. The Software Directive also uses the words “[the user] shall be entitled” in Art. 5(3). Thus it is arguable that exceptions based on those human rights have the same force as an author’s exclusive rights, leading one to conclude that those exceptions can be properly seen as rights of users. The other limits which were enacted based on economic or practical considerations as opposed to fundamental human rights thus

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180 See Geiger, above fn. 128, at n. 216 et seq. The two main authors who discuss it at some length are Guibault, above fn. 6 and Geiger, above fn. 128.


182 Geiger, above fn. 128, at n. 216, citing several publications by A. Lucas. Nimmer et al., above fn. 103, at 23 for instance speak of users’ rights.

183 Geiger, above fn. 128, n. 216. See also Guibault&IVIR, above fn. 126, 12 who reminds us that the two systems are not that far apart, citing Strowel, Droit d’auteur et copyright, Divergences et convergences (Paris, 1993); Ginsburg, A Tale of Two Copyrights: Literary Property in Revolutionary France and America, 147 RIDA 125, at 131 (1991) so that an instrumentalist undercurrent can be found in French law as well. “Nowadays French courts not only apply natural law principles when rendering decisions in copyright matters but are also preoccupied with considerations of economic efficiency and public interest”. Guibault&IVIR, above fn. 126, 12. In addition, through international harmonisation, both systems have had to accept one another’s philosophy (e.g. moral rights for copyright countries and provisions on computer programs for civil law countries) therefore all countries recognise exceptions although they may vary in nature and scope from country to country.

184 Geiger, above fn. 128, n. 217.

185 Geiger, above fn. 128, n. 217.

186 Geiger, above fn. 128, n. 217 and n. 219.
reflect interests only. It is interesting to note that the Copyright Directive considers private copying and reprography as rights for users. The Directive has followed the view that those exceptions are no longer viewed only as compensation for the inefficiency of exclusive rights in certain circumstances. The development of new means to control uses of works especially in the digital environment could justify reverting to a system of preliminary authorisation. The Copyright Directive encourages the use of technological measures but forces member states to ensure that users benefit from certain exceptions including private copying if users and right holders have not entered into private arrangements. (Art. 6 (4)).

L. Guibault in her thesis also seeks to determine the legal nature of exceptions. She concludes that they are privileges (in American legal jargon) or objective rights (in continental legal jargon), but not subjective rights. Thus they are at a lower level than author's rights which are subjective rights. For the American analysis of exceptions, she follows Hohfeld's theory of rights. At the end of her analysis, she concludes that "the usual analysis of the fair use doctrine is that it is a privilege in others than the owner of a copyright to use the copyrighted material in a reasonable manner without his consent notwithstanding the monopoly granted to the owner". This in Hohfeld's model is the equivalent of saying that users do not have a duty to "stay off the land"—there is no duty to refrain from using the protected works. Furthermore, the "no-right" corollary of the user's "privilege" implies with regard to the limitations on copyright that right-owners have "no-right" to prevent users from making use of the protected works in the particular circumstances defined in the Copyright Act. Unfortunately, L. Guibault did not take her analysis further. Since in practice copyright holders 'lose' their right to users, this clearly indicates that the exceptions have been accorded equal importance as author's rights. It could therefore be said that exceptions cannot be overridden by contract since the copyright owners have no right (at all either under copyright law or contract law and even no right to use technological measures) to prevent the users from exercising them. This analysis does not take into account the justifications under the exceptions however since this would mean that all exceptions whatever the nature of their justifications may be.

Later, Guibault discusses if and how the justification behind an exception influences the latter's nature. First, the justification has an influence on the exception's nature. For instance, a European state is obligated by law to protect fundamental freedoms. Therefore, similar obligation should be imposed upon

187 Dubuisson, above fn. 109, 215.
188 Guibault, above fn. 6, 90 et seq.
190 Guibault, above fn. 6, 103 et seq.
191 See art. 1 of the European Convention for Human Rights which states that the contracting parties must secure the freedoms provided in the convention to everyone within their jurisdiction. In France the constitution forces the legislator to implement rules to protect freedom of expression. A similar obligation exists in German law.
the state in relation to copyright matters. It follows that the authorisation to make parodies, quotations, news reports and private uses are different expressions of the state's obligation to protect the user's fundamental rights and freedoms. This might explain why it is often referred to those uses as rights of users.192 The state intervention to protect the legitimate interests behind other limitations is more arbitrary and depends on national policy. Limitations based on fundamental freedoms should weigh more on the scale than e.g. limitations based on industry practice. Thus the user's objective right or privilege is as strong as the legitimate interest or public policy objective behind it.193

The legal nature of exceptions will affect the outcome of whether they may be circumvented by contract. Those exceptions which are rights of users, i.e. those justified by fundamental rights should be imperative—contracts should not be allowed to derogate from them.194 A contrario, those exceptions based on other considerations should be seen as default rules and can be overridable by contract. Thus, the analysis of the legal nature of exceptions meets the analysis of their rationale. A major difference however is that the analysis based on the exceptions' rationale is more refined since it makes further distinctions between exceptions. Those based on the general interest cannot be overridden but as it has been suggested, remuneration should instead be paid. As rightly pointed out by Guibault, "the classification of a norm as imperative is intimately linked with the notion of public interest" and what is in the public's interest in one country might not be in another country.195 Since there is no international notion of public interest, these imperative copyright exceptions must be identified individually in each country.196 It is difficult then to determine with certainty the fate of those exceptions which are not justified by fundamental rights—some commentators have considered those exceptions in favour of educational institutions, libraries, museums and archives to be in the public's interest197 whilst others have not.198

192 Guibault, above fn. 6, 106.
193 Guibault, above fn. 6, 107–108.
194 See Geiger, above fn. 128, n. 228, citing Hugenholtz, above fn. 1; Vinje, above fn. 126; Wiese above fn. 126; Guibault, Pre-Emption Issues In The Digital Environment: Can Copyright Limitations Be Overridden By Contractual Agreements Under European Law?, in F. Grosheide & K. Boele-Woelki, Europees Privaatrecht, Molengrafica 1998 (Lelystad, 1998), 258; Gautier, above fn. 182, n. 203.
195 Guibault/IVIR, above fn. 126, 24.
196 Guibault/IVIR, above fn. 126, 27.
197 See Buijdeens & Dusollier; above fn. 127.
198 Guibault/IVIR, above fn. 126, 27. "Education, research and learning contribute to the general welfare. But, in our opinion, limitations of this type do not pursue objectives so fundamental to the defence of individual freedoms and the free flow of information that they should be considered imperative rules which parties may not deviate by contract, under any circumstances. (...) Library, archives and museum exemptions do not constitute imperative copyright rules." Hugenholtz, Copyright, contract and code: what will remain of the public domain, 26 Brooklin J. of International law 77, at 82 (2000) also notes that "Copyright limitations not serving a clearly defined social function, such as statutory licenses enabling photocopying in government institutions or the broadcasting of musical works, may well be set aside by contractual arrangements."
In conclusion, there seems to be general consensus among scholars that at least the exceptions grounded on fundamental rights (research, study, criticism, parody and news reporting) should be imperative.\textsuperscript{199} Generally, these exceptions exist in all European countries with the exception that one for parody does not in the UK,\textsuperscript{200} where the exception must be based on the right of criticism or review.\textsuperscript{201} Hence, in the UK, parody is held in lower regard and this turn is evidence of the difference in treatment from country to country.

e) The Wording of the Copyright Acts

Support for the view of non overridability of exceptions by contracts may be drawn from the interpretation of the wording used in each copyright act. Dusollier has pointed out that many European copyright acts formulate exceptions as “the author is not entitled to prohibit”.\textsuperscript{202} In her view, this means that “the author does not have the power to interfere with the legitimate exercise of an exception, be it by enforcement of her rights before a court, by contract or with a technical device.” The author’s exclusive rights end where the exception begins.\textsuperscript{203} This wording is also used in some exceptions in the Software and Database Directives.\textsuperscript{204} The difference with national copyright acts is that the Directives make the exceptions expressly imperative. However it could be argued on this basis that exceptions formulated in this way in national acts should also be seen as mandatory.

We have seen that the Copyright Directive has not made any exceptions expressly mandatory. However the wording of the Directive may imply that some exceptions are imperative. The first argument to support the view that exceptions are imperative can be found in Art. 6(4). This provision states that if no agreement is reached between users and copyright holders, Member

\textsuperscript{199} Geiger, above fn. 128; Guibault/IVIR, above fn. 126, 27; Guibault, above fn. 194, 257; Wiese, above fn. 126, 394; Broydens & Dusollier, above fn. 127; Hugenholtz, above fn. 1; Hugenholtz, above fn. 198, 82. See also Guibault/IVIR, above fn. 126, 41 reporting that there is consensus among the participants to the congress that at least parody and news reporting are exemptions that should not be waived. See also Vinje, p. 195, who also includes use by disabled persons.


\textsuperscript{201} Section 29 Copyright, Designs and Patents Act 1988.

\textsuperscript{202} Dusollier, Exceptions and technological measures in the European Copyright Directive of 2001—an empty promise, IIC 62, at 73 (2003). It can be noted here in passing that it is equivalent to the words “the right owner has no right to prevent” which are the words used under the Hohfeldian analysis above (section II.5). Thus at least one author agrees implicitly with our analysis of the consequences of Hohfeld’s theory applied to exceptions.

\textsuperscript{203} Dusollier, above fn. 202, at 73.

\textsuperscript{204} Article 5(2) of the Software Directive states that “the making of back-up copy” (…) “may not be prevented by contract”. Article 8(1) of the Database Directive similarly states that the maker of database “may not prevent” a user to extract or reutilise insubstantial parts.
States must intervene to allow users to benefit from a number of exceptions when they are prevented to do so by technological measures. Consequently, some authors have admitted that users here have an embryonic form of subjective right. There is hence only one more little step to make to conclude that those exceptions mentioned in Art. 6(4) are imperative. Contracts and technological measures have the same effect: they prevent users from benefiting from exceptions. Thus why distinguish between contracts and technological measures? Art. 6(4) of the Copyright Directive allows users to benefit from certain exceptions when technological measures prevent them from exercising them. This solution could be applied by analogy for contracts having the same effect.

Recital 31 could also be seen as an indication that exceptions should be seen as mandatory. It states “a fair balance of rights and interests between the different categories of rightholders, as well as between the different categories of rightholders and users of protected subject-matter must be safeguarded.” (Emphasis added) But it would perhaps stretch the Directive’s interpretation a bit far. The fact that the Directive speaks of interests of users could well signify that those interests can be overridden since they are not rights.

On the other hand, recital 45 of the Directive states that “the exceptions and limitations referred to in Art. 5(2), (3) and (4) should not, however, prevent the definition of contractual relations designed to ensure fair compensation for the rightholders insofar as permitted by national law”. This seems to mean simply that financial reward for the exercise of some exceptions must be possible, for example through contracts. However some have argued that this recital makes clear that the exceptions are default rules. This is reinforced by the fact that the Directive does not expressly declare any of the exceptions mandatory while it was in previous Directives.

In conclusion, the status of exceptions in the Directive is totally unclear. There are more arguments against than for their implicit mandatory character.

The U.S. Copyright Act is arguably worded in an even more peremptory way than the European copyright acts. Many sections on limitations are worded “it is not an infringement”. This means that the limitations are not exceptions to the rights but rather are outside the scope of the exclusive rights in the first place. Thus there are even more reasons to argue that they are imperative.

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205 Article 6(4) provides: “Notwithstanding the legal protection provided for in paragraph 1, in the absence of voluntary measures taken by rightholders, including agreements between rightholders and other parties concerned, Member States shall take appropriate measures to ensure that rightholders make available to the beneficiary of an exception or limitation provided for in national law in accordance with Article 5(2)(a), (2)(c), (2)(d), (2)(e), (3)(a), (3)(b) or (3)(e) the means of benefiting from that exception or limitation, to the extent necessary to benefit from that exception or limitation and where that beneficiary has legal access to the protected work or subject-matter concerned (…)”

206 Goutal, above fn. 181; see also Geiger, above fn. 128, 218.

207 Burydens & Dusollier, above fn. 127; Heide, above fn. 110, 223.
f) Copyright's Aims

In common law countries at least\textsuperscript{208}, copyright has always been seen by a majority of authors and courts as pursuing mainly economic efficiency and public interest functions.\textsuperscript{209} The American Constitution is a prime example of this. Art. 1, Clause 8, Section 8 states that Congress shall have the “power to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries” (emphasis added). Copyright's aim is to benefit the public by encouraging the production and dissemination of new works.\textsuperscript{210} The whole copyright system has been built to promote innovation.\textsuperscript{211}

How is innovation possible? Not only do the author's exclusive rights promote innovation but the limits as well. Copyright limits greatly contribute to this aim. The author is enticed to create because he receives protection for his work (in the form of exclusive rights) against similar and identical copies. With his exclusive rights he can reap the reward for his creative endeavours. On the other hand, limits on copyright leave room for other authors to build upon unprotected parts of works to create new works.\textsuperscript{212} Unprotected parts of works are not only ideas, but

\textsuperscript{208} As has been exposed above, this is originally less true for continental countries which put the emphasis on the protection of the author. But with the cross-fertilisation of both systems of common law and civil law and the fact that continental systems also recognise limits on copyright, the argument developed here can be extrapolated to most countries. Also for instance German case law interprets the citation exception rather broadly. See Guibault, above fn. 6, 39–40.

\textsuperscript{209} Guibault/IVIR, above fn. 126, 11. The colonies' statutes in the US were modelled on the first English copyright statute, the statute of Anne of 1709 ("An act for the encouragement of learning, by vesting the copies of printed books in the authors... during the times therein mentioned"). The federal Copyright Act 1790 was entitled "An act for the encouragement of learning by securing the copies of maps, charts and books to the authors and proprietors of such copies, during the times therein mentioned." Ibid. see also Samuelson, cite by Guibault/IVIR, above fn. 126. The US Supreme Court case law shows that the primary objective of copyright law is to "promote the public welfare by enhancing the public's access to an increasing number of works, implemented by Congress through an elaborate scheme of economic incentives". Guibault, above fn. 6, 286 citing Supreme Court, 3 December 1953, 347 U.S. 201, 219, Mazer v Stein; Feist, above fn. 106, at 349–350.


\textsuperscript{211} Heide, above fn. 110, 216. Recital 3 of the copyright Directive also acknowledges this role of copyright. Recital 2 provides: "Whereas a harmonised legal framework on copyright and related rights, through increased legal certainty and while providing for a high level of protection of intellectual property, will foster substantial investment in creativity and innovation, including network infrastructure, and lead in turn to growth and increased competitiveness of European industry, both in the area of content provision and information technology and more generally across a wide range of industrial and cultural sectors; whereas this will safeguard employment and encourage new job creation." See Heide, above fn. 110, 218. However whether the promotion of innovation is actually fostered by the Directive is uncertain. As Heide notes, the Directive rather reinforces protection and restricts free uses. Despite its declaration in recital 3, the aim of fostering competitiveness might not be achieved because the level of protection granted in the Directive is too high. See Heide, above fn. 110, 218–219.

\textsuperscript{212} See also Heide, above fn. 110, 216–217.
also unoriginal expressions and bits of protected expressions which can be used in certain defined cases. As a result, copyright ignites innovation and promotes competition. Since copyright limits allow some substitution between works, some competition is promoted as well. Of course this competition is not without boundaries. Competition by making infringing copies is not permitted.\footnote{Heide, above fn. 110, 217.}

If this balance is tipped by the cancellation of copyright limits, downstream, creation will be reduced or even halted. Perhaps isolated instances where limits are overridden in some contracts such as fully negotiated contracts may not be damaging but the overall use of standard form contracts by many copyright holders severely restricts innovation. Such restrictive contracts restrain the competition which copyright law had meant to leave intact in order to give an incentive to newcomers to create. Those contracts create complete monopolies and annihilate the possibility of new creation. Moreover, if such practice is not halted, those who draft restrictive contracts might themselves fall victims to the very practices they had tried to enforce.

What happens in practice when restrictive standard form licences are enforced en masse? Private standard form contracts will replace copyright legislation and its intended effects (innovation and competition). For instance, a contract prohibiting resale or any type of redistribution of copies of works (such as through inheritance) would impede the freedom of commerce and movement of goods. If works cannot circulate, access is reduced and the possibility downstream to create derivative works is annihilated—the public is worse off. This contravenes the goal of copyright: promote progress to the public’s benefit. In passing, it can be noted that this meets the argument above based on the constitutional supremacy of copyright in the U.S. Contracts preventing the exercise of copyright limits directly conflict with the wording and the intention of the copyright constitutional clause. This halt to progress which is allowed to be achieved by such contracts lasts until works fall in the public domain—progress can be stopped for over a century!\footnote{Assuming the average age of creation of an author is 40 and that he dies at 70, then copyright lasts for more than a century.} Should society wait a hundred years or more?

Can this reasoning which applies clearly to the copyright’s limits (idea/expression dichotomy, originality, first sale doctrine and term) apply equally to copyright’s exceptions to exclusive rights? Is progress prevented if users cannot quote or parody a work? If one argues that a parody or a quote results in a new work which promotes progress, then yes. However, it seems that criticism, review, news reporting, parody and quotation are based on freedom of speech.\footnote{See above section II.2.c.} Similarly, private copying is not based on this progress promotion but rather on the need to preserve users’ privacy, another constitutionally guaranteed right. Other exceptions for libraries, museums and educational establishments cannot be said to directly promote progress. Generally the copies made are not made for creating new works. They are made to conserve the past or to promote the spread of knowledge. It can be argued that at least the educational establishments’ reproduction exception
indirectly promotes progress, since by disseminating knowledge, the persons receiving instruction are able to further create. The rationale for making exceptions imperative could thus be the distinction between the uses which kill innovation and those which (directly or indirectly) foster it. Therefore, the libraries, archives and museums exceptions and similar reproductive exceptions would be the only ones which could be restrained. This would mean that those institutions would have to purchase original copies of works rather than making copies of works. Arguably, if the copy cannot be purchased anymore (e.g. because it is out of stock), the right to make the copy should remain.

It is clear therefore that innovation-promoting exceptions should be made clearly imperative in the copyright acts. Overriding limits and exceptions is contrary to copyright's goal as it kills innovation and competition. If only innovation-promoting exceptions are made mandatory, only some users can invoke exceptions, those whose aim is to create and not those who purely substitute and second, "compensation to the rights holder of an already created work is involved as any creator or innovator must be a lawful user to invoke any exception." It is nonetheless submitted that the innovation-promoting aim of copyright should be combined with the free speech and right of privacy overriding principles which apply to the other (even if duplicative) exceptions to render the exceptions based on both justifications (the promotion of innovation and on fundamental freedoms) imperative.

g) Economics of Copyright

The economic analysis of copyright law shows that the possibility of overriding copyright limits goes against economic efficiency and maximisation of economic welfare. The argument based on the economics of copyright leads to similar results as the previous one. Contracting out of copyright limits considerably reduces creation, in other words, the number of works produced decreases. This effect is felt when any of the copyright limits and exceptions are put into jeopardy.

Landes and Posner, in their seminal article, did not explain the effect of contracting out of copyright limits but explained why those limits make economic sense and the effects if those limits do not exist. They had also illustrated why without copyright limits, social welfare decreases. Their analysis can be summarised as follows. Monopolies on ideas create welfare loss. If every new author has to come up with an original idea of his own because he cannot use the idea of others, it takes more time and effort to create a work, hence the number of works is reduced. This reduces social welfare. In general, if any

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216 See Heide, above fn. 110, 230.
217 Ibid.
220 They think this is what happens rather than an increase in price like in monopolies where both effects occur (reduction in the number of goods and increase in price). They note that in a more complex model, the price of works would raise if ideas were protected.
borrowing of the expression of a work is completely forbidden, the number of works will decrease.\textsuperscript{221} Book reviews quoting brief passages of a work, should be allowed. Even if publishers would be better off if they could act against unfavourable reviews, this would be to the detriment of consumers of books.\textsuperscript{222} For other applications of the fair use doctrine, they distinguish between productive and reproductive uses. Productive fair use lowers the cost of expression\textsuperscript{223} which reduces the cost of creating new works, thereby increasing the total number of works. Reproductive uses reduce the demand for the protected work. For instance, if a parody reduces the demand for the original work, then it should be infringing and not fair use.\textsuperscript{224} It is uncertain whether the law has struck the right balance but it recognises the problem, since ideas are not protectable and substantial rather than simple similarity is required for infringement.\textsuperscript{225} Finally, the economic rationale for limiting the duration of copyright—to reduce both monopoly profits and tracing costs. The longer the term, the fewer the works in the public domain and thus the higher the cost of expression which spirals into the production of even less works.\textsuperscript{226} Again, social welfare is not enhanced.

Landes and Posner did not make an economic analysis of the remaining copyright limits, i.e. originality, the first sale doctrine nor of the exceptions other than fair use and neither do we. A simple analysis of the effects of the overriding of these limits has been made above in section 2(f) and we refer the reader to it.

An application of their economic conclusions has lead to the following results in relation to the restriction of limits and exceptions by adhesion contracts:

(i) anyone should be able to use ideas and unoriginal expressions without restraint;\textsuperscript{227} authors should not be able to prevent fair uses of their works nor extend the term of copyright perpetually;
(ii) if authors could, creation would be considerably reduced and the whole world (not only users but subsequent creators) would be worse off;
(iii) if ideas were protected, authors would have to create new ideas which is very time-consuming and very difficult and perhaps in some cases impossible or would have to seek licences from other authors and, provided they grant them, this would increase the costs of works dramatically;
(iv) the size of the public domain would be extremely small, made up only of ideas and expressions which in due course come into the public domain.

\textsuperscript{221} Landes \& Posner, 360.
\textsuperscript{222} Landes \& Posner, above fn. 218, 359.
\textsuperscript{223} The costs of expression are opposed to the costs of production. The former include the cost of creating the work (the author's time and effort) "plus the cost of the publisher of soliciting and editing the manuscript and setting it in type", Landes \& Posner, above fn. 218, 327. The costs of production are the costs of printing, binding and distributing individual copies. Ibid.
\textsuperscript{224} Landes \& Posner, above fn. 218, 360.
\textsuperscript{225} Landes \& Posner, above fn. 218, 361.
\textsuperscript{226} Landes \& Posner, above fn. 218, 362.
\textsuperscript{227} It seems that the explanation they gave for ideas could be extrapolated to unoriginal expressions.
on expiry of copyright term. If copyright is not allowed to end, the size of
the public domain would never grow but would only be constituted of
ideas and fair uses.

A combination of all these effects (the use of ideas is restricted, fair use is not
possible and copyright lasts perpetually) would mean that public domain will
disappear and use of copyright works would be only possible under licence. The
price of works will be increased (entering into licences engenders transaction
costs in addition to the price of the licence) and the number of works will be dra-
matically reduced. The world is worse off. Pushed to the extreme, users might
not even be able to buy the works because they are priced so high, making it in
turn totally economically inefficient to produce works in the first place... In
such scenario we would live in a world frozen at a certain period of time when
creation has ceased to occur, and be left to live for ever with the same books to
read, the same films to watch, the same music to listen to, the same computer
programs to use. The entire world would be at a complete standstill.228 This sce-
nario resembles a science-fiction plot or perhaps, with a bit more hope, to the
story of Sleeping Beauty, the kiss of the prince being the legislative initiative to
make limits imperative...

Some additional comments on fair use and other exceptions should be made.
It can seemingly be implied from Landes & Posner's analysis that the fourth fac-
tor of fair use (the impact of the use on the market for the copyright work) is the
decisive criteria for determining when a use should not be permitted. The crite-
rion—whether the demand for the original work decreases. Reproductive uses,
those which substitute works in the market and diminish the sales of the original
work, should therefore not be allowed. Their analysis stops short at fair use. Other
exceptions in the U.S. Copyright Act however allow reproductive uses to occur
even without the payment of a fee.229 It is not clear whether Landes & Posner
would agree that such exceptions relating to reproductive uses could be overrid-
den because they decrease the demand for the original work and thus decrease the
incentives to create. However, it would seem also to derive implicitly from their
analysis that when transaction costs are low, fair uses exclusively based on high
transaction costs should not be considered fair anymore.230 Since a licence can
be sought at low cost, payment should occur. However this should be nuanced.
Their previous analysis should be added to this one. This means that in cases,
where transaction costs are low but the use is transformative, the use should still
be considered fair since the market for the work is not diminished. On the con-
trary, because of quotation, it is enhanced. Users might want to access the quoted
work in full. The brief quote of works, like in a book review, is free advertising for

228 We insist once more that such scenario would occur by the cumulative use of adhe-
sion contracts. We do not here extrapolate these conclusions to fully negotiated contracts.
229 See sections 108 to 121 of the US Copyright Act, e.g. section 117 (archival copy for
computer programs) and section 108 (reproduction by libraries and archives). In the US,
educational institutions can make use of copyright material under a range of limitations
none of which require the payment of remuneration.
230 Landes & Posner, above In. 218, 357.
the author of the work. As regards the other uses, which are reproductive and involve low transaction costs, it can be implied from their relatively short analysis that there is no reason to leave the copyright holder without royalties.231

Should this mean that the copyright holder can prevent the work’s use? An answer cannot be derived from Landes and Posner’s analysis. The analysis made above which is based on copyright’s aims may provide an answer. If the use directly or indirectly promotes progress, then it should be allowed and not prevented. The analysis of the rationale of exceptions (free speech and right of privacy) should also be added for non (at least always) innovation-promoting exceptions (criticism, review, news reporting, parody, quotation and private copying). Whether such uses should be allowed for free or only upon payment is a question best left to policy makers.232 However it still remains that such uses should not prevented, i.e. overridden by contract, because of the strong rationale of promotion of progress, free speech or right of privacy behind the exception.

Finally, there is also a more general argument to be made against the extension of copyright’s scope, be it by standard form contracts or by law. Economists generally warn of the potential dangerous effects of extending the scope of copyright. Throughout the history of research and analysis by economists, economic historians and lawyers, on the role of patents and copyright in stimulating innovation and creation, no firm conclusions have been reached about the need for those intellectual property rights to support new industries. No one can say with conviction that intellectual property rights in general, and copyright law in particular, stimulate creativity. And there is still very little empirical evidence of copyright’s effects.233 That is no argument for not having copyright but it should sound loud notes of caution about increasing its scope.

h) Conclusion

Under contract law, restrictive shrink and click-wrap licences are generally upheld. However under copyright law, such copyright contracts should not be enforced. It has been argued that copyright does not provide an answer to the question whether copyright limits are or should be imperative. Furthermore, others have shown that resort to outside policies such as abuse of rights and copyright misuse, consumer protection and competition law has not yielded satisfactory solutions. This article has attempted to show that copyright law itself proves that some of its limits and exceptions should be mandatory.

“Market forces may ultimately discourage the use of overly restrictive [...] contractual provisions.”234 In other words, “competition among vendors, not judicial

231 Guibault, above fn. 6, 86–87 thinks however that asking payment in the digital world for uses which were in the analogue world considered fair may actually be counter-productive. The greater excludability of a public good does not necessarily result in greater social benefit because it may lead to under-utilisation of the good (here the copyright work). Therefore no or less new works are created due to the prices charged.
232 As a matter of fact, some countries provide for a system of remuneration (compulsory or statutory licence) while others, like the US, do not. See above fn. 230.
233 See e.g. Touse, Creativity, incentive and reward (Cheltenham, 2001), 21.
234 Heide, above fn. 110, 230.
revision of a package's contents, is how consumers are protected in a market economy. But so far this does not seem to be happening. On the contrary, history has shown that when freedom of contract is unrestricted, market conditions deteriorate, monopolies are formed. Several devices have been used to regulate freedom of contract (competition law, theory of abuse of rights, consumer protection). In the area of copyright, the devices are already written in the statutory law. They just need to be declared clearly mandatory. In view of the growing use of restrictive copyright adhesion contracts, there is a need to address the issue of whether exceptions should be imperative, lest the values of our democratic societies deteriorates and the progress of the world comes to a standstill. In view of new practices, legislators around the world, should be advised to clarify the situation and make explicit in the copyright acts that at least the exceptions based on fundamental rights and those promoting innovation are imperative while it would be left to them to decide whether the others such as so-called “public interest” exceptions and exceptions based on industry practice or market failure are overridable or not. While in the U.S., a simple sentence in the Copyright Act would suffice to solve the problem, in Europe, for a harmonised and thus better result, the mandatory effect of exceptions should be addressed directly at Community level.

B. Country Reports

Note: The contributors to the country reports are listed in the introductory preface.

I. China

1. Neither the Copyright Law of the People’s Republic of China nor the Regulation on the Implementation of the Copyright Law of the People’s Republic of China contain many special provisions regarding copyright contracts. The basic principles of contract law as set forth in the Contract Act (1999) such as the freedom of contract, and to act in good faith should nonetheless be applicable.

2. Sec. 7 Contract Act provides, “In concluding and performing a contract, the parties shall abide by the laws and administrative regulations, and observe social ethics. Neither party may disrupt the socio-economic order or damage the public interests.” Sec. 329 of the same Act provides that a contract that monopolizes a technology or impedes technological progress shall be null and void. Although most copyright contracts are not affected by the latter section since such contracts do not relate to technology, that section still plays a role in respect of some copyright contracts, for example, those dealing with computer software.

235 J. Easterbrook in ProCD, above fn. 18, at 1453.
236 Lemley, above fn. 101, stating that the use of many standard form contracts is growing and their content is very similar.
237 Guébault, above fn. 6, 195.
238 Heide, above fn. 110, 229.
The amendment bill to the Foreign Trade Act (1994) was adopted on 4 June 2004, and it has several articles relating directly to intellectual property rights. According to the Article 30 of the amended law, the competent authority may take measures against any intellectual property licensing contracts which contain conditions preventing challenges to validity, coercive package licensing or exclusive grant back conditions; or which have an adverse effect on fair competition in the country's foreign trade.

3. At present in Mainland China, there is an absence of a complete codified collection of anti-trust laws. The debate on the creation of such an antitrust act has been on-going for the past several years.

In recent years the business practices of the intellectual property owners who are usually the large corporations, indicate a great tendency to abuse their rights. This unfortunate situation has caught the attention of the academics and stirred much discussion amongst them of what mechanisms outside of the IP arena—such as the various arms of anti-trust laws—are available to limit the power of intellectual property right holders.

II. Hong Kong

1. Licence

A licence granted by the copyright owner is obviously the most common defence to an infringement action. The word 'licence' can be found in many provisions throughout the Copyright Ordinance. Section 22(2) of the Copyright Ordinance provides that copyright in a work is infringed by a person who without the licence of the copyright owner does or authorizes another to do any of the acts restricted by the copyright. An exclusive licence is defined in section 103 of the Copyright Ordinance as:

"a licence in writing signed by or on behalf of the copyright owner authorizing the licencee to the exclusion of all other persons, including the person granting the licence, to exercise a right which would otherwise be exercisable exclusively by the copyright owner." 239

a) Shrink-Wrap and Click-Wrap Agreements

Normally, contracts for the sale of goods are entered into on the basis of express terms agreed between the parties or implied by law. In the case of consumer sales, there are generally no express conditions of sale, but the law imposes implied terms, including various warranties as to the title, quality, fitness for purpose and

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239 Acts restricted by copyright in a work:
- to copy the work (section 23)
- to issue copies of the work to the public (section 24)
- where the work is a computer program or sound recording, to rent copies of the work to the public (section 25)
- to make available copies of the work in public (section 26)
- to perform, show or play the work in public (section 27)
- to broadcast the work or include it in a cable programme service (section 28)
- to make an adaptation of the work or do any of the above in relation to an adaptation (section 29)

and those acts are referred to in this Part as the "acts restricted by the copyright."

240 Applies to Division V of the Copyright Ordinance.
safety of the goods sold, as well as an implied right to keep and use the goods without interference from the seller. Otherwise, it is said, the seller would be in derogation of his grant to the purchaser.

The above is subject to any intellectual property rights which may be reserved to the seller and have not been exhausted by the original sale. Generally speaking, intellectual property rights are exhausted once goods have been put on the market without an express restriction on further sale or use. Such restrictions are only enforceable if the purchaser has notice.

In the case of computer software, the right to use is necessarily curtailed by the fact that any reproduction of the software may amount to an infringement of copyright. Whilst there may be an implied right for the purchaser to use software, how far does this extend? It obviously does not extend to making large numbers of copies for commercial resale. The purchaser therefore needs a licence, express or implied, to do these things. In the case of a shrink-wrap agreement, the terms and restrictions of the licence are contained in a document which the purchaser only sees after purchase, after the product has been unwrapped or accessed, for example by breaking a seal. In the case of a click-wrap agreement, the terms and restrictions may be contained either on a homepage by hyperlink leading to it or after scrolling through until reaching the “I accept” or “I agree” button at the bottom of the page.

b) Contracting Online

Computers and the Internet have fundamentally reshaped our way of life as well as how we conduct business transactions. The Electronic Transactions Ordinance (Cap 5653) was introduced by the Hong Kong government in early 2000 to facilitate and regulate electronic transactions in Hong Kong. Electronic transactions conducted through the Internet are regarded as valid and enforceable. Section 17 of the Electronic Transactions Ordinance provides that offer and acceptance may be expressed by electronic means. Common law principles on the formation of contract still apply, namely, the essential elements of offer, acceptance, consideration and an intention to be legally bound need to be satisfied in order to form a valid online contract.

c) Case Law

The validity of shrink-wrap as well as click-wrap licences was commented on in a Court of First Instance case241. Although the case was not concerned with shrink wrap or click wrap licences the comment offers a hint as to the approach a Hong Kong Court would take in respect of such licences. Deputy Judge Cheung commented242:

"...generally speaking when a person buys a mass-marketed computer software from a retailer these days, he must know or be taken to know that he can only make use of the software he so "buys" in accordance with the terms of a licence imposed by the developer or the proprietary owner of the software which comes together with the physical software package. Sometimes the terms of the licence are apparent from the outside of the box containing the software; sometimes they are not and can only be read after the box is opened or the CD-ROM is

241 Ho Lai Chuen v Xerox (Hong Kong) Limited [2002] HKEC 70
242 At para 62
inserted into and run on the computer. This is so in the case of a consumer... In my judgment, if the buyer chooses to "buy blind", i.e. without finding out the terms of the licence first before he purchases it from the retailer, he does so at his own risk in that if subsequently he does not find the terms of the licence agreeable to himself, which in most consumer cases are non-negotiable, he will risk not being able to use the software, at least legitimately."

2. Antitrust

There is no antitrust law in Hong Kong.

III. Taiwan

The recent amendment to Taiwan’s Copyright Act (2003) introduced provisions regulating new types of copyright infringements but those provisions dealing with copyright contracts still follows the existing rules of the Civil Code. Shrink-wrap and click-wrap licences have been widely used for transactions of computer software, whether they have been sold through real, brick-and-mortar shops, or through the internet. The current debate centres on issues brought about by rapid technical improvement and the need to ensure that consumer protection has not been eroded thereby. Recent court cases have not given clear directions which reflect these concerns.

This report discusses these issues against the background of the Civil Code, Copyright Act, Consumer Protection Act and Fair Trade Act.

1. The Structure of Civil Code and Consumer Protection Act

The "shrink-wrap" licence contracts usually may be read from the outside of the software package and its terms run along such lines as—"By opening this box, you agree to the terms and conditions of the licence." Similarly, software available on-line specifies that clicking on an "accept" button has the same effect; the so-called "click-wrap" contract. Such EULA gives the purchaser one of two options: (1) he agrees and is bound by all of the terms in the licence, or (2) he rejects the licence and refrains from using the software. Obviously, the second option is meaningless to a consumer, as it negates the whole purpose of purchasing the software. In other words, a consumer in reality has no choice but to agree to all terms of the licence, after purchase but before use. Such transactions convert a sale with some aspect of implied licence into one of a pure licence.

Under contract law, both parties must agree to key terms of the contract (Sec.153 Civil Code) before a contract is deemed concluded. The status and obligations of both parties and validity of such a contract are also regulated by the Civil Code. In the above situation the consumer, being the less savvy and powerful party, has to passively accept these standard-form contracts having had little time for contemplation, let alone negotiation. This clearly indicates that

such contracts have been subjected to little public scrutiny. The consumer has
come to accept such “shrink-wrap” or “click-wrap” licences as standard and has
accepted his position of non-negotiation with the copyright holder. Such being
the case, then Sec. 247-1 of Civil Code, Sec. 11 to 12 of the Consumer
Protection Act (CPA and Sec. 14 of the Implementation Regulations of the CPA
should be applicable.

If the terms of the contract include a “shrink-wrap” or “click-wrap” licence that
require consumers to waive their legal rights without prior consultation these
terms are obviously unfair and the licence should be declared invalid. Similar lit-
érature is presented in the Consumer Protection Act. (Sec.12 of CPA)

2. The Collision of Copyright and Contract Law

Bearing in mind the limits of intellectual property rights, one might ask whether
such limitations often rooted in social policy should be compromised by the soft-
ware industry’s method of licensing through non-negotiable “shrink-wrap” or via
“click-wrap” agreements. In other words, should the law aid copyright holders and
exploiters who inequitably force an individual to “waive” his or her freedom to
use an intellectual property in a manner outside of the owner’s exclusive right? If
such restrictions on consumers are allowed, what special requirements, if any,
must exist for such a waiver to be valid? Just as important a consideration is the
frequency of such clauses.

Secs. 44 to 65 Copyright Act concern matters of fair use and restrictions of
copyright. It is usual that shrink wrap and click warp licences contain terms and
conditions which in essence require the purchaser to waive the defence of fair
use or the limitation of exhaustion as an ancillary part of the transaction. Is such
a waiver valid? According to Sec. 12 Consumer Protection Act, if the terms and
conditions of standard contracts are “obviously contradictory to the legislative
purport of the discretionary provisions, it may be excluded by such terms and
conditions”, therefore, they shall be presumed unfair. So it is very important to
appropriately explain the limitations of copyright under Sec. 44–65. In our opin-
ion, since the legislative purpose of these statutory limitations is to protect fund-
amental rights, they should not be so easily waived by mere contractual terms.
Sec. 52 Copyright Act which is based on the fundamental right of the freedom
of speech and which grants users the freedom to quote publicly released works
for reports, comment, teaching, research, or other legitimate purposes, should
not be excluded by standard contract. The same can be said for Sec. 51
Copyright Act, which grants similar rights of use in private or non-commercial
purposes.

Some other statutory limitations have been implemented for public interest
purposes, such as legislative or administrative purposes (Sec. 44), judicial pur-
poses (Sec. 45), library, museum or cultural institutions for preserve materials
(Sec. 48, 48-1), etc. If they would be excluded by standard contracts, the legisla-
tive purposes will not be fulfilled. The other statutory limitations include the
condition, which require “within the reasonable scope of use”. In our opinion, the
copyright owner could arrange some terms and conditions for the reasonable
scope of use, but they must not be unjust.
The decision of the US court ProCD, Inc. v. Zeidenberg,\textsuperscript{245} considered the issue of the enforceability of a "shrink-wrap" licence for a telephone directory computer database. There are no similar cases in Taiwan. We hope to see judicial opinions in this regard in the future.

3. \textit{Standard Contracts, Copyright and Fair Trade Act}

Some standard software contracts include terms which forbid the licencsee from decompiling computer programs (reverse engineering). Since such decompiling is vital in order to achieve interoperability of different computer programs, we do not consider such terms to be consistent with the fair competition doctrine. If business operators try to adopt the principle of freedom of contract to limit the legal right granted by copyright law, it could be deemed to violate Sec. 45 Fair Trade Act, abuse of intellectual property right. When the business operator (copyright owner) ties in the copyrighted work with another product, the reason for the tie-in should be investigated. Each party's bargaining power should also be taken into account by the Fair Trade Commission (FTC) or the court. If the FTC or the court regards any arrangements as unsupported by any legitimate reasons, the terms of the standard contract should be held to contravene Sec. 19 Fair Trade Act.

4. Conclusion

Although copyright contracts, public policy and antitrust are still emerging issues in Taiwan, due to the phenomenal growth of Internet use, these issues are now drawing more attention than ever. The academic and professional communities have just moved their attention to this ambiguous but critical area. Actually, foreign cases, such as ProCD, Inc. v. Zeidenberg or Mallinckrodt, Inc. v. Medipart, Inc.,\textsuperscript{246} have all been eagerly discussed amongst local practitioners and academics. We believe that copyright contracts, public policy and antitrust will soon become main concerns of our country. More judicial decisions on this issue are needed to shape our discourse, which in turn will provide a direction for future modification and amendment of the Copyright Act.

IV. Japan

1. \textit{Copyright and Contract prior to the Digital Age}

Secs. 17 and 59 Copyright Act provide for copyright to be transferred in toto, with the exception of moral rights. As a protection to the copyright owner, some jurisdictions have introduced a so-called "purpose-of-transfer" rule whereby the copyright owner transfers only such rights as the other party requires for that specific purpose. Future and unknown forms of use cannot be transferred. Such a rule exists in Germany under Sec. 31(5) Copyright Act. The Japanese Copyright Act has no mandatory provisions that would limit contractual freedom, though some

\textsuperscript{245} 86 F.3d 1477 (7th Cir. 1996).
\textsuperscript{246} 967 F.2d 700 (Fed. Cir. 1992).
academics have advocated the introduction of a purpose of transfer rule.\textsuperscript{247} In the legislative process, the 1966 draft contained the provision that a contract that transfers the whole copyright of the work both for the present and future unknown uses, was void (Sec. 54 of the draft). The draft also stipulated that the right to exploit a work in an unforeseeable manner at the time of contract should be vested in the author (Sec. 55 of the draft).\textsuperscript{248} This presumption was to apply to rights of translation or adaptation (Sec. 27) and to the exploitation of a derivative work (Sec. 28) (Sec. 61 (2)). These proposals did not become law. Apparently the cause was too much opposition from the industry. However, there was some academic opposition to the introduction of more equitable rules into this aspect of copyright law.\textsuperscript{249}

2. Copyright Contracts in the Digital World

In a good many countries, clauses introduced by click wrap or shrink wrap licences have to pass the threshold of consumer protection laws in order to be deemed valid. This is not the case in Japan, where neither specific legislation nor court rulings have imposed measurable limits on the validity of such clauses.\textsuperscript{250} Doubts about the validity of shrink wrap or click wrap clauses thus have to be based either on copyright or anti-trust law.

In the legislative process, copyright limitations were categorised as follows:

(a) an exploitation to which copyright should not extend in nature;
(b) an exploitation to which copyright should be limited by public interest;
(c) an exploitation in which copyright should be restricted to accommodate other rights; and
(d) an exploitation as social custom, in which the limitations of copyright are not unreasonably detrimental to the economic interests of the copyright owner.\textsuperscript{251}

At least those limitations that fall under (b) would not be enforceable. There is not much case law on this matter. However, any limitations overriding the exhaustion of copyrighted works would be deemed void\textsuperscript{252} and even contravening the


\textsuperscript{248} Monbushō (Ministry of Education), Chosakuen seido shingikai tōshin setsumeishō (Explanation of the Report of the Council about Copyright Legislation) (1966), 77-78.

\textsuperscript{249} H. Shiomi, 119-6 Hōgaku kyōkai Zasshi 1006 et seq.

\textsuperscript{250} A. Ōmura, Shōshisha keiyakuhō (Consumer Contract Law), 2nd ed. Tokyo 2003; idem, Keiyakuhō kara shōshishahō he (From Contract to Consumer Law), Tokyo 1999.

\textsuperscript{251} M. Katō, Chosakuenhō chikujō kōgi, (Commentary on the Copyright Act), 4th ed. 2003, 222.

\textsuperscript{252} This view is taken by MITI’s Study Group on Copyright Law (Chosakuen hōrei kenkyūkai), Chosakuenhō fusei kyōsō boshihō kaisetsu (Explanations on copyright and unfair competition), Tokyo 1999, 115.
Antimonymony Act. In the Fair Trade Commission’s (FTC) “Nihon Record II” decision\(^{253}\), certain manufacturers of audio discs had tried to prevent shops from renting out these discs to customers. Since the Copyright Act at that time did not provide for any specific rights of rental and lending, the obligation was unenforceable, as the rights over these audio discs were exhausted by the first sale. It was anti-competitive to try to enforce the restriction by way of a boycott against these shops. The FTC, at least when reviewing licensing agreements, generally finds clauses that contractually limit the licencsee beyond the scope of the IP right in question, void. Yet most shrink wrap and click wrap contracts are made between the manufacturer and the end user rather than an entrepreneur, making it more difficult for the FTC to intervene. It is thus open to question to what extent limits on the private use (Sec. 30 Copyright Act) of copyrighted works are enforceable, particularly after legislature already allowed limitations on private use by digital means (Sec. 30(2) Copyright Act). One academic thus finds private-use restrictions by contract enforceable\(^{254}\).

Outside the limitation of exhaustion, no clear case law exists on this matter.

V. Korea

The recent rapid development and diffusion of information technology are dramatically changing not only the methods which process an enterprise’s internal tasks, but also modes of trading and even the businesses themselves. Further, the use of intellectual property (IPR) licensing agreements in electronic commerce has been on the increase. The general legal issues relating to e-commerce and licensing apply accordingly to licensing of IPR in e-commerce. A variant of the shrink-wrap licence has emerged in information transactions. It is called an “online licence” or “click-wrap licence.”

Copyright law aims to balance the right of the copyright holder to control the use of his work with the public’s interest for its widespread dissemination. However, contractually individual parties are free to negotiate and agree on terms of use which may be more or less stringent than those which would be implied under copyright law. Nonetheless, such mutually agreed terms may allow the supplier to exert much more control over the future use of the software than would otherwise have been the case if only copyright law was applicable.\(^{255}\)

A major fair-access issue has arisen regarding situations where a copyright holder attempts to restrict a reverse engineering right by copyright infringement litigation, contractual shrink-wrap licences or a protective system that defeats the reverse engineering permissible under the “fair-use” doctrine. Reverse engineering computer software is defined as the process of studying a computer program to obtain useful and detailed insight into the functional mechanisms of the work.

\(^{253}\) FTC, 15 December 1983, 389 Kösei Torihiki 34—“Nihon Record II”.

\(^{254}\) N. Kozumi, Chosakukan to seigenkitei to keiyaku, gijutsuteki hogo shûdan no interface (Interface between Copyright Limitations Provisions and Contract, Technological Protection Measures), Copyright (July 2003), 5.

Reverse engineering commonly involves copying an original program without the permission of a copyright owner. Indeed, the owners seek to prevent reverse engineering by bringing infringement suits, imposing contractual limitations or installing technological impediments. In the United States, the Digital Millennium Copyright Act ("DMCA") provides a software vendor with extra protection for its protective system, and allows reverse engineering only for the purpose of interoperability. The Uniform Computer Information Transactions Act ("UCITA") makes a shrink-wrap licence enforceable even if it contains a term prohibiting reverse engineering. These protectionist measures ensure that a copyright holder can dominate the computer software industry by restricting reverse engineering. Although the Computer Program Protection Act in Korea allows a reverse engineering purporting to achieve interoperability as an exception, this is still not enough to strike a balance between the copyright holder's interests and the public right of access to a copyrighted work. The current trend toward copyright protectionism undermines that balance; thus, the critical question regarding clarification of the right to conduct reverse engineering should be answered by policymakers in terms of reconciliation between copyright, contract and competition policy.256

The principal purpose of transferring software products to consumers via a shrink-wrap licence rather than via a sale transaction is to negate the copyright "doctrine of first sale", which provides that the copyright holder's rights in the particular copy are exhausted upon the sale of the copy. Under the Copyright Act,257 a purchaser of copyrighted work may freely resell, lease, lend, or otherwise dispose of the purchased copy. By hiding under the guise of a licence rather than an outright sale as the means of transferring the use computer programs, the industry has succeeded in avoiding the exhaustion of copyright by first sale doctrine.258

What have the courts decided about the enforceability of such under Korean law? Despite the apparent importance of this issue there do not appear to be any reported cases. It would be interesting to see whether the Korean judiciary would be swayed by similar policy consideration.259 Contract and copyright laws and various other laws governing digital information do not differ largely irrespective of whether a physical or an electronic distribution takes places. The legal issues that do arise concerning questions such as, validity of contract, enforceability of contract, identification of parties, underlying copyright protection, and remedies against infringements.

Another reason why software supplied via a shrink-wrap licence cause contractual difficulties in Korea is the failure to incorporate proper terms and conditions into the sale or licence. Assuming that the Korean courts will enforce all terms of such licences, there will be greater certainty for all parties if such licences are carefully drafted so that the courts would not have to resort to implied terms.

257 Sec. 43 (1) of the Copyright Act.
259 Id., at 140.
UCITA expressly provides for the incorporation of the terms and conditions of the contractual licence into the supply contract.\textsuperscript{260} Even if the introduction of UCITA has been controversial and has been the subject of a vigorous debate in the US, it does appear to provide a pragmatic approach to the potential problem of the incorporation of terms into shrink wrap licences, and this approach may provide useful guidance for Korea.

Information technology accounts for a huge share of the Korean economy and is rapidly expanding its boundaries. There is a need for new legislation in Korea which will apply to computer software, multimedia products, computer data and databases, online information, and other such products. Such legislation should be drafted to create a uniform commercial contract law for these transactions and to furnish clear, consistent uniform rules for the intangible subject matter involved in digital information transactions over the Internet and elsewhere. Prior to drafting the new legislation, a study of the approach taken in UCITA may be a good starting point. It is vital that any proposed new legislation eradicates existing uncertainties, implements those areas of law which are uncontroversial, and intellectual property doctrines such as fair use and exhaustion by first sale are given their proper role. Furthermore, various terminologies such as “conspicuous”, “authenticate”, “electronic agent”, and “digital information transactions” should be more accurately drafted in the new legislation to ensure correct interpretation. Lastly, loopholes in shrink-wrap licences should be addressed, and proper remedy and warranty provisions must be prescribed.\textsuperscript{261}

VI. Singapore

Singapore’s contract law does not allow the courts to invalidate any contractual term\textsuperscript{262} which restricts or excludes the user’s right to use the copyright work granted by the Copyright Act, on the basis that it is an attempt to usurp the decision of legislators/policy-makers and therefore against public policy.\textsuperscript{263} This concern is addressed within the Copyright Act itself, but only in relation to two particular rights:

a) the right of the owner of a non-infringing copy of a computer program to make a back-up copy thereof, i.e. in the event that the original copy is lost, destroyed or rendered unusable;\textsuperscript{264} and

\textsuperscript{261} Byung-il Kim, Id., 143.
\textsuperscript{262} Note, though, that it is possible for the court to hold that the clause delimiting the licencee’s right to use the copyright work is not a term of the contract where, in the view of the court, it was brought to the attention of the licencee after the conclusion of the contract. This has important implications in the supply of software and the accompanying ‘shrink-wrap’ licence.
\textsuperscript{263} Singapore has an Unfair Contracts Terms Act. This Act, however, is not relevant to the discussion at hand because it is concerned with contractual terms that attempt to avoid civil liability for breach of contract or for negligence or other breach of duty.
\textsuperscript{264} See s 39(1) of the Copyright Act.
b) the right of the owner of a computer program or of a compilation to make a copy or adaptation thereof where such copy or adaptation is created as an essential step in the utilization of the computer program or compilation in conjunction with a machine and that it is used in no other manner.\textsuperscript{265} The second right holds some significance for reverse engineering of software.\textsuperscript{266} These two rights are considered so important by the legislators that they have specifically provided in the Copyright Act that any term or condition in an agreement which purports to prohibit or restrict the scope of these rights is void.\textsuperscript{267}

It has been mentioned earlier that Singapore has just enacted The Competition Act 2004.\textsuperscript{268} It prohibits conduct which amounts to an ‘abuse of a dominant position’ and agreements which have as their object or effect the ‘restriction or distortion of competition’. To the extent that the behaviour of the copyright owner in using contract to expand his control over the use of his copyright work would be considered anti-competitive within the new regime, it would be regulated therein.

VII. Malaysia

The right of a copyright owner to grant a licence over his copyright is recognised under Malaysian law, subject only to the requirement that it must be in writing.\textsuperscript{269} Apart from that formality, the Act does not otherwise prescribe the limits or scope of any licence, except that the term ‘licence’ itself is defined as ‘a lawfully granted licence in writing, permitting the doing of an act controlled by copyright’.\textsuperscript{270} Thus, the licence cannot exceed the bounds of the law, for the copyright owner cannot have more rights than what is given to him under the Act.

The rights given under the Act enable the copyright owner to control the following acts in relation to a work:\textsuperscript{271}

(a) the reproduction in any material form;
(b) the communication to the public;
(c) the performance, showing or playing to the public;

\textsuperscript{265} See s 39(2) of the Copyright Act.
\textsuperscript{266} See Ng-Loy, “Copyright Protection for Computer Programs in Singapore: Creative Technology Ltd v Aztech Systems Pte Ltd [1997] 4 Computer and Telecommunications Law Review 182. Singapore introduced, with effect from 1 January 2005, two other rights which are relevant for reverse engineering of software: the right to decompile a computer program (s 39A) and the right to observe, study or test a computer program (s 39B). It is expressly provided that any contractual term or condition which purports to prohibit or restrict such permitted acts of reverse engineering would be void.
\textsuperscript{267} See s 39(3) of the Copyright Act. Another instance in the Copyright Act disregarding the effect of a contractual term or condition is where the copyright owner attempts by contract to restrict the exhaustion of rights principle: see s 24(4).
\textsuperscript{268} This legislation is available at the website of the Singapore Competition Commission which is http://www.ccs.gov.sg/.
\textsuperscript{269} Copyright Act 1987, s. 27(3).
\textsuperscript{270} Copyright Act 1987, s. 3.
\textsuperscript{271} Copyright Act 1987, s. 13(1).
(d) the distribution of copies to the public by sale or other transfer of ownership; and
(e) the commercial rental to the public

A licence purporting to restrict or control acts other than the above, for example acts falling under 'fair use', could be invalid. With shrink-wrap or click-wrap licences, the issue is usually not about the terms and conditions therein; rather it is with the character of the licence itself and whether a person is bound by it. This goes back to basic principles of contract law regarding the formation of a contract. In Malaysia, contracts are governed by the Contracts Act of 1950, which codifies much of the common law. The law here is familiar: a contract is formed when an offer is made and it is accepted with the passing of consideration and an intention to be bound.

Therefore, so long as the terms of a shrink-wrap or click-wrap licence are sufficiently brought to the notice of the purchaser and the purchaser indicates acceptance of it, it will hold. This has led to, for example, a redesign of how websites and software packages process an order or installation. Instead of putting the terms and conditions on another link or page, they are now prominently displayed prior to confirmation and the customer has to actively click an 'I Accept' button in order to proceed. Software packages that used to only have a shrink-wrap licence now supplement that with a click-wrap version that is seen during installation in order to increase the likelihood that a contract has been formed. That said, the point remains that the terms and conditions themselves cannot exceed the scope of rights granted under the Act. Hence, it is arguable whether a term prohibiting the decompilation, disassembly and reverse engineering of a work (which is quite common in software click-wrap licences) is enforceable since the Act in the first place does not give the copyright owner the right to control these activities.

VIII. Thailand

Under Thai law on juristic acts, an agreement is formed and legally binding when an offer is met by an acceptance. This normally does not have anything to do with whether the agreement is done in writing. Nevertheless, in most cases, a deed of agreement is necessary as proof that the offer and the acceptance have met and therefore there exists a legally binding agreement.

It seems that shrink-wrap or click-wrap agreements are used mostly in the computer software industry. In my opinion, there is a problem with shrink-wrap agreements in that the computer program manufacturer (the copyright owner and licensor) may not always be able to obtain clear proof of the "acceptance." A computer program registration card that has been signed by the consumer who has purchased a package of computer program and returned to the manufacturer, for example, is clear proof of the acceptance. The problem is some consumers buy a computer program and use it without bothering to fill out and return the product registration card to the manufacturer, in which case the manufacturer will have no proof that the consumer has "accepted" the terms and conditions of the computer program licence agreement. Nevertheless, this does not mean that the
consumer may do anything he likes with the computer program purchased. He is still required by copyright law to respect the basic rights of the copyright owner. He may not make unauthorized copies of, adapt, communicate to the public or rent out the program. In most cases, a shrink-wrap agreement’s terms and conditions which the copyright owner wants the consumer to observe are no more than what the copyright law already requires of the consumer. Therefore, even in the absence of a clear “acceptance” of the shrink-wrap agreement by the consumer, the copyright owner’s rights remain protected.

So far, this exact issue has not been settled by case law.

It should be noted that Sec. 15 of the Copyright Act provides that copyright licensing agreements may not incorporate conditions which are “unfairly restrictive of competition.” What conditions are then to be considered “unfairly restrictive of competition”? We are directed by the Act to the Ministerial Regulations of 1997 issued pursuant to Sec. 15. However, the Ministerial Regulations do not address the issue of shrink-wrap agreements but only the issues involving copyright licensing agreements between copyright owners and manufacturers of copyrighted products.

IX. Philippines

A contract is a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service.272 There is no contract unless there is, among others, consent of the contracting parties.273 In other words, the parties must have fully understood the terms of the contract and they freely gave their consent to the performance of an obligation either “to give something or to render some service.” Shrink-wrap and click wrap licences must possess these features before they can be considered valid contracts under Philippine law.

Shrink-wrap licences occur when a consumer opens the package containing the terms as to the use of the computer program. It is understood that when the consumer opens the package, he arguably contractually accepts the terms of the licence.274 Click-wrap licences take place when the terms of the licence are flashed and read on-line by a computer-user who arguably contractually accepts the terms as soon as he proceeds to access the software on-line.

Considering that the terms of the licence have already been prepared when offered to the consumer and the latter is simply asked to agree to them, the shrink-wrap and click-wrap licences may be considered a type of contract of adhesion.275 A contract of adhesion is one in which one of the parties imposes a ready-made form of contract, which the other party may accept or reject, but which the latter cannot modify.276

272 New Civil Code Article 1305.
273 Ibid. Article 1318.
275 Arturo Tolentino, supra. v. IV p 411.
276 Ibid. p 506.
Below is a comparison of the essential elements of a contract of adhesion, shrink-wrap licence and click-wrap licence:

A contract of adhesion usually contains stipulations that increase the responsibilities of the adherent and reduce the responsibilities of the offeror. While the contract appears to favour the offeror, it cannot be said that there is "such economic inequality between the parties to these contracts" that the will of the offeree (or party adhering to the terms) is suppressed. The party who adheres to the contract is free to reject it entirely. If the party adheres to the contract, then he is deemed to have given his consent.

To constitute a valid contract, it is essential that the offeree in a shrink wrap and click wrap licence has freely given his consent. Under our laws, "consent is manifested by the meeting of the offer and the acceptance upon the thing and the

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<tr>
<th>Contract of Adhesion</th>
<th>Shrink-wrap Licence</th>
<th>Click-wrap Licence</th>
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<tr>
<td>Offeror (such as transportation or insurance company) prepares all the terms and conditions of the contract</td>
<td>The software company prepares all the terms and conditions of the contract</td>
<td>The software company prepares all the terms and conditions of the contract</td>
</tr>
<tr>
<td>The other party to whom the contract is presented cannot modify the provisions stated therein</td>
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</tr>
<tr>
<td>Contract is usually in written form</td>
<td>Contract is usually in written form, either attached to the cellophane packaging or printed on the box or case containing the software</td>
<td>Contract is flashed on the computer screen, online, via the internet</td>
</tr>
<tr>
<td>Consent is given through the signing of the prepared agreement</td>
<td>Consent is indicated by opening the shrink wrap packaging or other packaging of the software, by use of the software, or by some other specified procedure</td>
<td>Consent is indicated by clicking the &quot;I Agree&quot; button, or proceeding to access the software after the user has read the provisions in the contract</td>
</tr>
</tbody>
</table>

277 Ibid.
278 Ibid.
cause which are to constitute a contract. The offer must be certain and the acceptance absolute."\textsuperscript{279} The acceptance must be known to the offeror and such acceptance may be express or implied.\textsuperscript{280}

In a shrink wrap licence, consent is given and the licence terms are deemed accepted when the packaging is opened and the "terms of the licence are set out on the outside of the packaging, visible through clear plastic film."\textsuperscript{281} In a click-wrap licence, the computer-user is assumed to have accepted the terms of the licence since he cannot proceed to access the software on-line unless he gave his consent on the licence terms. In both cases, the party adhering to the terms has the opportunity to review the licence and may reject the same in the event the terms thereof are unacceptable.

However, there are software products whose licence terms are not visible from the outside. The offeree is not given an opportunity to review the terms of contract of adhesion prior to accepting them. So long as the conditions of the licence come to the user's attention before he agrees to be bound by its terms, then the contract is valid and enforceable. In this regard, it appears that the contract terms in most shrink-wrap licences are found inside the package and is not visible from the outside. The offeree has no opportunity to review the terms of the licence prior to breaking the seal of the package. The absence of an opportunity to review the terms prior to accepting or rejecting the terms, will work against upholding the validity of this type of shrink-wrap licence.

A contract of adhesion is already construed strictly against the party who drew the terms of the ready-made agreement\textsuperscript{282} as public policy protects the adherent against oppressive and onerous conditions.\textsuperscript{283} Under our laws, the consent of a party is vitiated when the other party "takes improper advantage of his power over the will of another, depriving the latter of a reasonable freedom of choice."\textsuperscript{284} It would all the more be difficult to sustain the validity of a contract of adhesion where there is an absence of opportunity for the offeree to review or reject the terms. A well respected Filipino jurist has commented as to why contracts of adhesion shall be interpreted strictly against the drafters and may be denied enforcement on grounds of public interest. His comments are as follows:

"Against monopolies, cartels and great concentrations of capital, the individual is usually helpless to bargain for better terms; and must accept those offered, usually in printed forms. Travellers against transportation monopolies, the insured against insurance combinations, customers against exclusive agencies, are all forced to accept contracts carefully worded by skilled counsels to stack the cards against the lone individual and in favor of the corporations. This situation demands greater corrective remedies than contract law produces by bargaining on equal terms, with power lodged in the Courts to deny enforcement of provisions th are exclusively for the benefit of the stronger party, and cannot be justified by reason of public interest".\textsuperscript{285}

\textsuperscript{279} New Civil Code Article 1319.
\textsuperscript{280} New Civil Code Article 1320.
\textsuperscript{281} Graham Smith, "Software Contracts" in Computer Law, edited by Chris Reed (1990), page 48.
\textsuperscript{282} Eastern Shipping Lines v. Margarine-Verkaufs, 93 SCRA 257 (1979).
\textsuperscript{283} Villacorta v. Insurance Commission , 100 SCRA 467 (1980).
\textsuperscript{284} New Civil Code Article 1337.
We are aware of the view that, in the event the offeree is given the opportunity to reject the terms of the licence, the validity of the contract should be upheld. It is likely that courts will examine the facts surrounding the existence of such opportunity. The procedure for the return of the software products, if in fact in place, must be reasonable and practicable for the consumer. The law expressly provides that the offeree must be afforded “a reasonable freedom of choice.”

Likewise there have been attempts to override the limitations of copyright by incorporating provisions favourable to the copyright owners in a shrink wrap or click wrap licence. Assuming the execution of the contract was in order, that is, the offeree has expressly given his consent to waiving such limitations, it would be interesting for the courts to squarely decide on these issues under Philippine laws. Whilst the validity of shrink-wrap and click wrap licences are strictly construed against the copyright owner-offeror, we cannot overlook the right of the parties to freely enter into an agreement and “establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.”

It is likely that public policy considerations will work against the validity of such provisions in view of the express limitations under the IP Code. The courts cannot ignore a principle explicitly stated in the new law which states as follows:

“The State . . . shall protect and secure the exclusive rights of scientists, inventors, artists and other gifted citizens to their intellectual property and creations, particularly when beneficial to the people, for such periods as provided in this Act.

The use of intellectual property bears a social function. To this end, the State shall promote the diffusion of knowledge and information for the promotion of national development and progress and the common good.”

It is submitted that overriding copyright limits is inconsistent with the declared policy of the State of extending exclusive rights to copyright owners when such protection is beneficial to the people and for such periods as provided in the law. To deprive the consumer and the public in general of the copyright limitations may restrict the application of the social function of intellectual properties: promote the diffusion of knowledge and information. The consumers and the general public will be restricted in the lawful use of the licensed software even if such restrictions are beyond the limits provided by the IP Code. This view is supported by the principle that laws restrict the freedom of contract for the good of the public. It is obvious that however broad the freedom of the contracting parties may be, it does not go so far as to countenance disrespect for or failure to observe a legal prescription. The statute thus takes precedence.

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286 New Civil Code Article 1337.
287 New Civil Code Article 1306.
288 IP Code Section 2.