

12-1-2002

## Unilateral Refusals to License Software: Limitations on the Right to Exclude and the Need for Compulsory Licensing

Catherine Parrish

Follow this and additional works at: <https://brooklynworks.brooklaw.edu/blr>

---

### Recommended Citation

Catherine Parrish, *Unilateral Refusals to License Software: Limitations on the Right to Exclude and the Need for Compulsory Licensing*, 68 Brook. L. Rev. 557 (2002).

Available at: <https://brooklynworks.brooklaw.edu/blr/vol68/iss2/6>

This Note is brought to you for free and open access by the Law Journals at BrooklynWorks. It has been accepted for inclusion in Brooklyn Law Review by an authorized editor of BrooklynWorks.

# UNILATERAL REFUSALS TO LICENSE SOFTWARE: LIMITATIONS ON THE RIGHT TO EXCLUDE AND THE NEED FOR COMPULSORY LICENSING\*

## INTRODUCTION

Common thinking today is that intellectual property and antitrust law, despite their fundamental conflicts, complement each other.<sup>1</sup> The common ground on which these fields of law stand, however, resembles California's fault lines more than a peaceful plateau.<sup>2</sup> The tenuous balance between the two areas continually shifts according to context and prevailing policy objectives.<sup>3</sup> An unstable context for balancing intellectual property and antitrust law emerged with the increasing importance of technology and the concentration of technological resources in the hands of a smattering of companies.<sup>4</sup> Of particular concern are recent antitrust cases involving a well-established company's refusal to license software to organizations that service its products.<sup>5</sup> In these

---

\* © 2002 Catherine Parrish. All Rights Reserved.

<sup>1</sup> Matthew G. Jacobs & Michael S. Mireles, *The Intersection of Intellectual Property and Antitrust Law: In re Independent Service Organizations Antitrust Litigation*, 15 TRANSNAT'L LAW. 293, 294-95 (2002); E. Thomas Sullivan, *The Confluence of Antitrust and Intellectual Property at the New Century*, 1 MINN. INTELL. PROP. REV. 1 (2000); Marina Lao, *Unilateral Refusals to Sell or License Intellectual Property and the Antitrust Duty to Deal*, 9 CORNELL J.L. & PUB. POL'Y 193 (1999).

<sup>2</sup> "[A]t the border of intellectual property monopolies and antitrust markets lies a field of dissonance yet to be harmonized by statute or the Supreme Court." *Image Technical Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1217 (9th Cir. 1997). The Ninth Circuit further noted the "obvious tension" between intellectual property and antitrust laws. *Id.* at 1215.

<sup>3</sup> See James Langenfeld, *Intellectual Property and Antitrust: Steps Toward Striking a Balance*, 52 CASE W. RES. L. REV. 91 (2001).

<sup>4</sup> See generally Robert Pitofsky, *Antitrust and Intellectual Property: Unresolved Issues at the Heart of the New Economy*, 16 BERKELEY TECH. L.J. 535 (2001) [hereinafter *Unresolved Issues*].

<sup>5</sup> See *Indep. Serv. Orgs. Antitrust Litig. (Xerox)*, 203 F.3d 1322 (Fed. Cir. 2000); *Kodak*, 125 F.3d 1195; *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994). For a discussion of the antitrust aspects of these cases see Jacobs

contexts, litigants and commentators looked primarily to antitrust provisions for solutions. An alternative approach, however, lies within copyright law. Examining the proper scope of a copyright holder's right to exclude provides a better method of balancing the competing concerns.<sup>6</sup>

Among the recent antitrust cases, the Federal Circuit pushed copyright holders' rights further than other courts.<sup>7</sup> In *Independent Service Organizations Antitrust Litigation* ("Xerox"), the Federal Circuit equated a copyright owner's exclusive right to a discretionary right to refuse to license one's work.<sup>8</sup> Rather than exploring how the Copyright Act's scheme of rights and limitations applied to that particular context, the court relied on questionable dictum from a *Lochner* era Supreme Court case to find that the right to exclude is virtually limitless.<sup>9</sup> This decision ignored underlying copyright policies and upset the balance that the Constitution and Copyright Act demand.<sup>10</sup> As Robert Pitofsky, former chairman of the Federal Trade Commission, commented, "recent cases, and particularly the Federal Circuit's opinion in . . . Xerox, have upset that traditional balance in a way that has disturbing implications."<sup>11</sup> The implications extend beyond who can service Xerox's copy machines.<sup>12</sup> If the right to exclude is limitless, then a copyright owner can dominate aftermarkets such as service, restrict access to ideas, reduce innovation and harm small businesses.<sup>13</sup>

---

& Mireles, *supra* note 1 and Lao, *supra* note 1.

<sup>6</sup> Indeed, the courts have stated that intellectual property laws, not antitrust provisions, must determine the scope of granted rights. *Kodak*, 125 F.3d at 1216; *Xerox*, 203 F.3d at 1326.

<sup>7</sup> *Xerox*, 203 F.3d at 1328-29.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at 1328. See also *infra* notes 118-68 and accompanying text.

<sup>10</sup> Defining the right to exclude as virtually limitless undermines the constitutional mandate that protection be given to promote the arts and ignores the policies embodied in other Copyright Act limitations. See U.S. CONST. art. I, § 8, cl. 8; 17 U.S.C. § 107 (2000) (codifying fair use as a limitation on exclusive rights). See also Nicolas Oettinger, *In re Independent Service Organizations Antitrust Litigation*, 16 BERKELEY TECH. L.J. 323 (2001) (arguing that the Federal Circuit disturbed the balance of antitrust and intellectual property law).

<sup>11</sup> Robert Pitofsky, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, 68 ANTITRUST L.J. 913, 919 (2001).

<sup>12</sup> The Federal Trade Commission recently conducted a series of hearings to address licensing problems and recent court decisions. Federal Trade Commission, Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy, at <http://www.ftc.gov/opp/intellect/index.htm> (last visited Sept. 26, 2002).

<sup>13</sup> See, e.g., *Tricom Inc. v. Elec. Data Sys. Corp.*, 902 F. Supp. 741, 742-744 (E.D. Mich. 1995) (citing *Xerox*, 203 F.3d 1322, to find that General Motors need not

A close examination of the American copyright regime reveals that, in fact, a more limited right to exclude exists. Copyright law itself is a balancing act between the public good and a creator's rights. To foster creativity and reward creators, the public sacrifices some of its access rights to protect a copyright holder's expression from unauthorized use. Maintaining the appropriate balance between the public and copyright holders is a primary copyright issue for the courts and Congress.<sup>14</sup> Yet, the scope of protection for new technologies, particularly software, remains in limbo.<sup>15</sup> Demarcating this scope is fundamental to properly balance public access and copyright holders' rights.

This Note explores the foundations and developments of copyright law to argue for recognition of the limitations on the right to exclude. It examines the Federal Circuit's faulty basis for finding a limitless right and discusses the viability of compulsory licenses to balance the competing individual and public interests. Part I of this Note considers copyright's historical roots in America and development of the current law. Part II argues that software is a different kind of expression than other literary works and, as such, requires specialized standards. Part III analyzes the recent "refusal to license" cases with particular attention paid to *Xerox*. Part IV dissects the Federal Circuit's foundation for a broad right to exclude and argues that it is faulty and against public policy. Finally,

---

license its engineering software to third parties even though General Motors required outside vendors to use the software for engineering and design services). See also Warren S. Grimes, *Antitrust and the Systemic Bias Against Small Business: Kodak, Strategic Conduct, and Leverage Theory*, 52 CASE W. RES. L. REV. 231, 280 (2001) (arguing that the *Xerox* decision curtailed antitrust law).

<sup>14</sup> William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 326 (1989). As the Supreme Court expressed:

Congress . . . has been assigned the task of defining the scope of the limited monopoly that should be granted to authors . . . in order to give the public appropriate access to their work . . . this task involves a difficult balance between the interests of authors . . . on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand.

*Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). See also *United States v. Loew's Inc.*, 371 U.S. 38, 46-47 (1962); *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

<sup>15</sup> Copyright law only protects expression, not function. 17 U.S.C. § 102 (2001). Thus, copyright protection for software is imperfect because it either overprotects by encompassing the software's function or leaves the function unprotected. Pitofsky, *Unresolved Issues*, *supra* note 4, at 542-43. See also *infra* notes 48-88 and accompanying text.

Part V suggests that compulsory license is a mechanism within copyright law that will curb excessive copyrights.

## I. HISTORY OF AMERICAN COPYRIGHT LAW<sup>16</sup>

Copyright law began in the United States in the 1780s.<sup>17</sup> The Constitution gave Congress the power to grant copyrights "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors . . . the exclusive Right to their respective Writings."<sup>18</sup> The grant was discretionary; Congress had the power, but not the duty, to pass a copyright law.<sup>19</sup> In fact, Congress did not enact the first copyright statute until 1790.<sup>20</sup> In the interim, the Continental Congress recommended that states pass copyright laws.<sup>21</sup> Following this recommendation, all but one of the original thirteen states passed copyright provisions for a renewable fourteen year term.<sup>22</sup> Most of the state statutes based copyright protection on

<sup>16</sup> For a more detailed history of copyright law see RICHARD ROGERS BOWKER, *COPYRIGHT, ITS HISTORY AND ITS LAW* (1912); L. RAY PATTERSON, *COPYRIGHT IN HISTORICAL PERSPECTIVE* (1968); Howard B. Abrams, *The Historic Foundation of American Copyright Law: Exploding the Myth of Common Law Copyright*, 29 WAYNE L. REV. 119 (1983); Jane C. Ginsburg, *A Tale of Two Copyrights: Literary Property in Revolutionary France and America*, 64 TUL. L. REV. 991 (1989); Gary Kauffman, *Exposing the Suspicious Foundation of Society's Primacy in Copyright Law: Five Accidents*, 10 COLUM.-VLA J.L. & ARTS 381 (1986).

<sup>17</sup> BOWKER, *supra* note 16, at 35, 654.

<sup>18</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>19</sup> 1 NIMMER ON COPYRIGHT § 1.07 (Matthew Bender & Co., Inc. 2001) [hereinafter NIMMER]. Reading Section 8 of the Constitution as a whole supports this interpretation. The section begins with "The Congress shall have Power To" and continues on to list items within that power. U.S. CONST. art. I, § 8. In addition to granting copyrights, the clause lists creating lower federal courts and declaring war. U.S. CONST. art. I, § 8, cls. 9, 11. Neither of these imposes a duty on Congress. The clear intent was to allow, but not compel, Congress to pursue these matters if it deemed necessary. H.R. REP. NO. 60-2222 (1909), *reprinted in* 6 LEGISLATIVE HISTORY OF THE 1909 COPYRIGHT ACT 7 (E. Fulton Brylawski & Abe Goldman eds., 1976) [hereinafter 1909 LEGISLATIVE HISTORY] ("The Constitution does not establish copyrights, but provides that Congress shall have the power to grant such rights if it thinks best.").

<sup>20</sup> Act of May 31, 1790 (protecting the author of charts, maps and books), *reprinted in* THORVALD SOLBERG, *COPYRIGHT ENACTMENTS OF THE UNITED STATES 1783-1906*, at 32-34 (2d ed., rev. 1906).

<sup>21</sup> SOLBERG, *supra* note 20, at 11-31. The Continental Congress resolution recommended that copyright be the "exclusive right of printing, publishing and vending . . . under such restrictions as to the several States may deem proper." *Id.* at 11.

<sup>22</sup> *Id.* at 11-31. Delaware was the one state without a copyright statute. *Id.* at 31. Four state statutes included compulsory license provisions to insure that copyrighted books were available at reasonable rates. Robert Stephen Lee, *An Economic Analysis of Compulsory Licensing in Copyright Law*, 5 W. NEW ENG. L. REV. 203, 207 n.23 (1982).

an author's natural rights.<sup>23</sup> When Congress enacted the first federal copyright act, however, it followed the English Statute of Anne to create a positive right rather than basing the statute on natural rights.<sup>24</sup> Evidence demonstrates that the founders intended copyright to be a positive right, not a codification of any common law rights.<sup>25</sup>

Still, some commentators argue that natural rights provided the basis for American copyright law.<sup>26</sup> The primary support for this contention is Madison's statement in the Federalist Papers that "[t]he copy right of authors has been solemnly adjudged in Great Britain to be a right at common law."<sup>27</sup> Madison, however, probably mischaracterized the British right. In 1774, the House of Lords held that at common law an author did have the right of first printing but that the Statute of Anne replaced that right, and only the statute could provide a remedy for infringement.<sup>28</sup> The members of the Constitutional Convention most likely knew of this decision and chose to follow it rather than codify a natural right. The 1790 Copyright Act provides further evidence of this conclusion. The Act stated that it was intended "for the encouragement of learning"<sup>29</sup>—language that copied exactly the

<sup>23</sup> SOLBERG, *supra* note 20, at 11-31. Eight of the twelve states with copyright laws expressly stated that the law was based on an author's natural rights. *Id.* See also Lloyd L. Weinreb, *Copyright For Functional Expression*, 111 HARV. L. REV. 1149, 1212-15 (1998).

<sup>24</sup> BOWKER, *supra* note 16, at 23. The Statute of Anne, enacted in 1710, granted an author the sole right to print his work, provided penalties for infringement and allowed the officers of the Crown to lower prices if deemed too high. *Id.* at 6, 24-26. It was at this point that "[l]iterary and like property . . . lost the character of copy-right, and became the subject of copy-privilege." *Id.* at 7.

<sup>25</sup> For instance, the Constitutional Convention record shows that alternate proposals were presented at the Constitutional Convention: (1) "to secure to literary authors their copyrights for a limited time;" (2) "to encourage by premiums & provisions, the advancement of useful knowledge;" and (3) "to secure to Authors exclusive rights for a certain time." 2 THE RECORDS OF THE FEDERAL CONVENTION OF 1787, at 325 (Max Farrand ed., 1911). The Constitution reflects a combination of the latter two rather than the first proposal. The founders balanced public access and a limited monopoly in the Constitution: "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors . . . the exclusive Right to their respective Writings." U.S. CONST. art. I, § 8, cl. 8.

<sup>26</sup> See, e.g., Kauffman, *supra* note 16, at 403-08; Weinreb, *supra* note 23, at 1212.

<sup>27</sup> Kauffman, *supra* note 16, at 406; Weinreb, *supra* note 23, at 1212. See also THE FEDERALIST NO. 43, at 288 (James Madison) (Jacob E. Cooke ed., 1961).

<sup>28</sup> Donaldson v. Beckett, 1 Eng. Rep. 837 (H.L. 1774).

<sup>29</sup> SOLBERG *supra* note 20, at 32.

Statute of Anne.<sup>30</sup> If Madison argued for a natural law copyright, the other framers apparently did not agree.

In the 1834 case of *Wheaton v. Peters*, the Supreme Court decided the issue of whether a common, natural law copyright existed in America.<sup>31</sup> The Court held that no federal common law existed under the Copyright Act. Thus, when Congress enacted the first Copyright Act, it did not sanction an existing right; it created a new one.<sup>32</sup> While commentators questioned the Court's finding,<sup>33</sup> the Court maintained in subsequent decisions that copyright is a statutory grant.<sup>34</sup>

Congress echoed the Court's holding in *Wheaton* when it revised the Copyright Act in 1909. The 1909 revision extended protection to new technologies and for the first time included compulsory license provisions.<sup>35</sup> As the House Report stated:

The enactment of copyright legislation by Congress under the terms of the Constitution is not based upon any natural right that the author has in his writings, for the Supreme Court has held that such rights . . . are purely statutory . . . upon the ground that the welfare of the public will be served . . . [n]ot primarily for the benefit of the author, but primarily for the benefit of the public, such rights are given.<sup>36</sup>

Some commentators argue that the purpose of these statements was only to justify the new compulsory licensing

---

<sup>30</sup> Kauffman *supra* note 16, at 404.

<sup>31</sup> 33 U.S. 591 (1834). See also L. Ray Patterson, *Copyright and "The Exclusive Right" of Authors*, 1 J. INTELL. PROP. L. ASS'N 1, 15-16 (1993).

<sup>32</sup> *Wheaton*, 33 U.S. at 658, 661. The Court also found that if the state recognized a common law right, it could protect the work until publication, at which time the federal statutory right took effect. *Id.* at 658. State common law continued to protect works prior to publication until the 1976 Act, which extended federal copyright to works upon "fixation" rather than "publication," thereby subsuming the common law into the statutory right. 17 U.S.C. § 301 (2000). Interestingly, the Court also implied that courts and commentators agreed that patent holders did not derive their grants from natural rights. *Wheaton*, 33 U.S. at 657-58.

<sup>33</sup> GEORGE TICKNOR CURTIS, A TREATISE ON THE LAW OF COPYRIGHT 4-82 (Freeman & Bolles 1847); EATON S. DRONE, A TREATISE ON THE LAW OF PROPERTY IN INTELLECTUAL PRODUCTIONS IN GREAT BRITAIN AND THE UNITED STATES 43-48, 51 (Boston, Little, Brown and Co. 1879) (arguing that authors have a natural-law copyright and that the term limit constituted a taking).

<sup>34</sup> See *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 431 (1984) ("[I]t [i]s settled that the protection given to copyrights is wholly statutory."); *Mazer v. Stein*, 347 U.S. 201, 219 (1954); *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932).

<sup>35</sup> Act of March 4, 1909, ch. 320, 35 Stat. 1075 (1909), reprinted in BOWKER, *supra* note 16 at Appendix I.

<sup>36</sup> H.R. REP. NO. 60-2222 (1909), reprinted in 1909 LEGISLATIVE HISTORY, *supra* note 19.

provision.<sup>37</sup> Although the statements do begin the compulsory licensing section,<sup>38</sup> the Report indicated that the Supreme Court's *Wheaton* reasoning underlay all copyright laws, not just compulsory license provisions.<sup>39</sup> At the very least, the 1909 Act demonstrated Congress' intention that the individual right be balanced against the public good. The Supreme Court consistently has affirmed that this balance lies at the heart of copyright protection.<sup>40</sup>

Congress again revised the Copyright Act in 1976. This revision accommodated the drastic technological changes that had occurred since 1909, particularly changes to how copyrighted works were reproduced and exploited.<sup>41</sup> The 1976 Act maintained the same philosophy as the 1909 Act; copyright law needed to balance individual rights and the public good.<sup>42</sup>

Since the beginning of copyright law, commentators have argued over the priority that should be given to the individual author's rights vis-à-vis the public. Some, like Madison, viewed an author's rights and the public good as

<sup>37</sup> See, e.g., Weinreb, *supra* note 23, at 1215. This first compulsory license exempted coin-operated machines from liability for public performance when the establishment did not charge a fee. 8 NIMMER, *supra* note 19, § 8.17. Under the current Copyright Act, this exemption changed to permit voluntary negotiations between the parties. 17 U.S.C. § 116(c) (2000). If negotiated rates are not agreed upon, then a Copyright Arbitration Royalty Panel sets the rate until the parties can reach agreement. 17 U.S.C. § 803(a)(4) (2000).

<sup>38</sup> 1909 LEGISLATIVE HISTORY, *supra* note 19, at S7.

<sup>39</sup> The Report went on to state:

In enacting a copyright law Congress must consider . . . two questions: First, how much will the legislation stimulate the producer and so benefit the public; and, second, how much will the monopoly granted be detrimental to the public? The granting of such exclusive rights, under the proper terms and conditions, confers a benefit upon the public that outweighs the evils of the temporary monopoly.

1909 LEGISLATIVE HISTORY, *supra* note 19, at S7.

<sup>40</sup> *Sony Corp. v. Universal City Studios*, 464 U.S. 417, 429 (1984). See also *United States v. Loew's Inc.*, 371 U.S. 38, 46-47 (1962); *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

<sup>41</sup> Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C. §§ 101-1332 (2001)). This Act separated copyrightable works into seven categories: (1) literary works; (2) musical works; (3) dramatic works; (4) pantomimes and choreographic works; (5) pictorial, graphic and sculptural works; (6) motion pictures and other audiovisual works; and (7) sound recordings. Congress added an eighth category, architectural works, in 1990. 17 U.S.C. § 102(a)(1-8). See also Ronald A. Cass, *Copyright, Licensing, and the "First Screen"*, 5 MICH. TELECOMM. & TECH. L. REV. 35, 40 (1999).

<sup>42</sup> See generally H.R. REP. NO. 94-1476, 94th Cong., at 61 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5674 ("The approach of the bill is to set forth the copyright owner's exclusive rights . . . and then to provide various limitations, qualifications, or exemptions in the [following sections].").



complementary principles.<sup>43</sup> Others advocated treating intellectual property no differently than real property and abolishing term limitations.<sup>44</sup> Still other theorists called for the abolition of copyright in favor of the public good.<sup>45</sup> The debate continues today.<sup>46</sup> Courts, however, settled on balancing the individual author's rights with the public good according to the nature of the work and the congressional grant.<sup>47</sup> Balancing the competing interests—public access and exclusivity as an economic incentive to innovate—is the only way to adequately protect both.

## II. SOFTWARE IS DIFFERENT THAN TRADITIONAL LITERARY WORKS

All copyrights are not created equal. The current Copyright Act specifies different rules depending on the category of the work.<sup>48</sup> A few examples are: (1) term: a private copyright lasts for the author's life plus seventy years, and a copyright held by a corporation lasts ninety-five years;<sup>49</sup> (2)

---

<sup>43</sup> James Madison stated regarding the Copyright Clause: "The public good fully coincides . . . with the claims of individuals." THE FEDERALIST NO. 43, *supra* note 27, at 288.

<sup>44</sup> DRONE, *supra* note 33, at 51-53. See also CURTIS, *supra* note 33, at 1-25. A book review of Philip H. Nicklin's REMARKS ON LITERARY PROPERTY quoted the author as saying, "I incline to the belief that authors should have *full property in perpetuity*; that is to say, that they, their heirs, and assigns, should possess the entire control over their works forever." *Review of Remarks on Literary Property*, 19 AM. JURIST & L. MAG. 476, 477-78 (1838). The editors disagreed. *Id.* at 478-79, *cited in* Patterson, *supra* note 31, at 20 n.52.

<sup>45</sup> William Leggett's 1837 editorials called for the abolition of copyright to further the greatest good for the most people. DEMOCRATICK EDITORIALS: ESSAYS IN JACKSONIAN POLITICAL ECONOMY BY WILLIAM LEGGETT 391-405 (Lawrence H. White ed., 1984), *cited in* Weinreb, *supra* note 23, at 1214 n.276.

<sup>46</sup> Compare Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281 (1970), with Frank H. Easterbrook, *Intellectual Property is Still Property*, 13 HARV. J.L. & PUB. POL'Y 108 (1990). A common belief is that the term limit alone insures an appropriate balance. Robert Cassler, *Copyright Compulsory Licenses—Are They Coming or Going?*, 37 J. COPYRIGHT SOC'Y 231, 243 (1990). However, as term limits increase this protection becomes more illusory, particularly with software, which becomes obsolete long before the copyright term expires. See also Landes & Posner, *supra* note 14, at 361-63 (arguing that as the cost of copying decreases, the optimal term of protection should increase).

<sup>47</sup> See *supra* note 14. See also *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984); *United States v. Loew's Inc.*, 371 U.S. 38, 46-47 (1962); *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

<sup>48</sup> See 17 U.S.C. § 102(a) (2000).

<sup>49</sup> 17 U.S.C. §§ 201(b), 302(a) & (c) (2000). The life plus seventy years term matches the European copyright term. However, the ninety-five year term for works for hire is almost twice as long as the European term for similar works. The American

copying exemptions: certain groups are allowed to make copies that would be infringement if made by another group;<sup>50</sup> and (3) moral rights: these rights attach to certain paintings or sculptures,<sup>51</sup> but not to software or works made for hire.<sup>52</sup> Congress coupled together such bright line rules and exceptions as a result of negotiations between the interested parties.<sup>53</sup> This structure can result in acutely myopic interpretations of the statute. However, when the overall context is considered, the bright lines blur into a workable standard that balances the competing interests.<sup>54</sup> Overall, the Act reflects the understanding that the character and use of an expression alters the balance between promoting the public good and encouraging innovation. Different forms of expression require different degrees of protection.

In 1964, the Copyright Office began accepting registration of computer software as a "book."<sup>55</sup> Ten years later, Congress created the National Commission on New

---

work for hire term was extended in 1998 from seventy-five to ninety-five years due to, many believe, pressure from Disney. Disney debuted Mickey Mouse in 1927 and had much to gain from protecting him for another twenty years. JESSICA LITMAN, *DIGITAL COPYRIGHT* 23, 32 n.4 (2001); James Surowiecki, *Righting Copywrongs*, *NEW YORKER*, Jan. 21, 2002, at 27.

<sup>50</sup> 17 U.S.C. § 108 (2000) (library copies); § 112 (television broadcaster copies); § 117 (archival and maintenance copies of a computer program).

<sup>51</sup> Visual Artists Rights Act of 1990, Pub. L. No. 101-650, § 603(a), 104 Stat. 5128 (codified as amended in scattered sections of 17 U.S.C.). This provision allows certain classes of artists to prevent inter alia derivative use of their work. 17 U.S.C. § 106A (2000).

<sup>52</sup> 17 U.S.C. § 101 (2001). A work for hire occurs when an employee creates a work for an employer. The employer then holds exclusively all rights to the work. 17 U.S.C. § 201(b) (2001).

<sup>53</sup> LITMAN, *supra* note 49, at 22-34. Professor Litman argues that public interests consistently were left out of the negotiation process because Congress called together the directly interested parties, e.g., libraries and publishers, but failed to include an advocate for the public's rights. *Id.* at 23-25, 35-69.

<sup>54</sup> *Id.* at 180-81 (arguing that the bright line rules are illusory and the Act should be replaced with a case-by-case standard based on an exclusive right of commercial exploitation). Any "rule" within the Copyright Act should be read in light of the overall scheme. This allows courts to apply those rules in furtherance of the Act's overall policy objectives—promoting learning and compensating authors to encourage innovation. The Federal Circuit in *Xerox* failed to do this by narrowly focusing on the grant of exclusive rights rather than the overall copyright scheme. *Xerox*, 203 F.3d 1322, 1328 (Fed. Cir. 2000).

<sup>55</sup> UNITED STATES COPYRIGHT OFFICE, *COPYRIGHT REGISTRATION FOR COMPUTER PROGRAMS* (1964), reprinted in 11 BULL. COPYRIGHT SOC'Y U.S.A. 361 (1964). A work was not protected unless registered, and registration was limited to specified types of works. When copyrightability of a work was in doubt, the Copyright Office policy was to provide registration. No category existed in 1964 for computer programs, so the Copyright Office used the broadest category, "books," to provide protection. *Id.*

Technological Uses of Copyrighted Works ("CONTU") to examine technological advances and make recommendations as to how federal law should handle these developments.<sup>56</sup> The legislative history of the 1976 Act indicates that software was copyrightable under the literary works category.<sup>57</sup> However, Congress awaited CONTU's findings as to which intellectual property regime was ultimately best suited for software protection.<sup>58</sup> The CONTU panel concluded that copyright law should provide the principal means of legal protection for computer software.<sup>59</sup>

Congress followed CONTU's recommendation in its 1980 amendments to the Copyright Act.<sup>60</sup> The 1980 amendments added software to the literary work category because software expresses information in "words, numbers, or other verbal or numerical symbols or indicia."<sup>61</sup> Software consists of two expressions, source code and object code.<sup>62</sup> Source code is the instruction for what a programmer wants a program to do.<sup>63</sup> Object code is the binary sequence, the 1s and 0s, that a computer reads to perform the intended function.<sup>64</sup> Translators within a computer transfer the source code to object code.<sup>65</sup> Thus, software text is not read in the same way,

<sup>56</sup> Act of Dec. 31, 1974, Pub. L. No. 93-573, § 201, 88 Stat. 1873, *reprinted in* 1974 U.S.C.C.A.N. 6849, 6854.

<sup>57</sup> 17 U.S.C. § 102(a)(1) (1976). *See also* H.R. REP. NO. 94-1733 (1976); H.R. REP. NO. 1476, at 54 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5667 ("[L]iterary works' . . . includes . . . computer programs to the extent that they incorporate authorship in the programmer's expression of original ideas, as distinguished from the ideas themselves."); *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1247 (3d Cir. 1983).

<sup>58</sup> Weinreb, *supra* note 23, at 1165-67; Arthur R. Miller, *Copyright Protection for Computer Programs, Databases, and Computer-Generated Works: Is Anything New Since CONTU?*, 106 HARV. L. REV. 978, 979 (1993).

<sup>59</sup> National Commission on New Technological Uses of Copyrighted Works, *Final Report* (1979), *reprinted in* COPYRIGHT, CONGRESS AND TECHNOLOGY: THE PUBLIC RECORD, VOL. V: CONTU'S FINAL REPORT AND RECOMMENDATIONS (Nicholas Henry ed., 1980). The decision to protect software under copyright law puzzled some commentators who found it contrary to the basic principle that a copyright does not protect any "process, system [or] method of operation." 17 U.S.C. § 102(b) (2001); Peter S. Menell, *Tailoring Legal Protection for Computer Software*, 39 STAN. L. REV. 1329, 1330 (1987).

<sup>60</sup> 17 U.S.C. §§ 101, 102(a)(1), 117 (2001). These amendment clarified ambiguity found in the 1976 Act by defining a computer program and carving out an exception for copies made for archival purposes. 17 U.S.C. §§ 101, 117 (2001).

<sup>61</sup> 17 U.S.C. §§ 101, 102(a)(1) (2001).

<sup>62</sup> Cass, *supra* note 41, at 43-44; Menell, *supra* note 59, at 1334.

<sup>63</sup> Cass, *supra* note 41, at 43-44; Menell, *supra* note 59, at 1334.

<sup>64</sup> Cass, *supra* note 41, at 43-44; Menell, *supra* note 59, at 1334.

<sup>65</sup> Menell, *supra* note 59, at 1334. CONTU recommended and Congress

or for the same purpose, as a traditional literary work. Consumers value software text for what it does, not what it says. As one group of commentators said, "[n]o one would want to buy a [computer] program that did not behave, i.e., that did nothing, no matter how elegant the source code 'prose' expressing that nothing."<sup>66</sup>

Despite fierce debate among commentators as to whether the copyright regime is an appropriate means of protecting computer software, copyright protection for software is here to stay.<sup>67</sup> Protecting software as a literary work, however, created a legal mismatch.<sup>68</sup> The Copyright Act acknowledges some of the differences between software and traditional literary works, and specifies different rules for each.<sup>69</sup> Yet, the Act fails to address most of the important legal and practical differences between software and traditional literary works. Since copyright prohibits protection for a process or function, it often leaves the most valuable part of software unprotected.<sup>70</sup> Conversely, because software is both expression and function, "even the most closely circumscribed definition of a computer program's protectible subject matter will to some degree enable the copyright owner to monopolize the programs function."<sup>71</sup> Thus, the very nature of software requires special rules to properly balance an author's rights with the public good.<sup>72</sup>

---

approved copyright for both source and object code. Cass, *supra* note 41, at 43-44.

<sup>66</sup> Pamela Samuelson et al., *A Manifesto Concerning the Legal Protection of Computer Programs*, 94 COLUM. L. REV. 2308, 2317 (1994).

<sup>67</sup> See Jessica Litman, *The Public Domain*, 39 EMORY L.J. 965 (1990) [hereinafter *Public Domain*] (arguing that the public domain is vital to promoting authorship and protecting copyright as a property right endangers this); Samuelson et al., *supra* note 66 (advocating a sui generis regime for computer programs); Weinreb, *supra* note 23 (discussing the inadequacy of the copyright rules to handle functional expression). Cf. Raymond T. Nimmer & Patricia Ann Krauthaus, *Software Copyright: Sliding Scales and Abstracted Expression*, 32 HOUS. L. REV. 317 (1995) (arguing that while software and copyright are a mismatch, copyright law contains the tools to accommodate the differences); Miller, *supra* note 58 (maintaining that copyright law is the proper means to protect software).

<sup>68</sup> "Applying copyright law to computer programs is like assembling a jigsaw puzzle whose pieces do not quite fit." *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 49 F.3d 807, 820 (1st Cir. 1995). See also Nimmer & Krauthaus, *supra* note 67. But see Miller, *supra* note 58, at 982-85 (arguing that computer programs are quite similar to traditional literary works and protecting them as such was sound judgment).

<sup>69</sup> Such limitations include the ability to make an essential, archival or maintenance copy of a computer program. 17 U.S.C. § 117(a) & (c) (2001).

<sup>70</sup> 17 U.S.C. § 102(b). The patent statute provides protection for original processes and functions. 35 U.S.C. §§ 100-103.

<sup>71</sup> Nimmer & Krauthaus, *supra* note 67, at 332 (quoting Paul Goldstein).

<sup>72</sup> *Computer Assocs. Int'l Inc. v. Altai, Inc.*, 982 F.2d 693, 712 (2d Cir. 1992)

Traditional literary works rarely have software's dual nature.<sup>73</sup> Literary works that combine function with expression, e.g., a "how-to" book, do not present the same legal difficulties because the expression is still valued over the function. Copyright of a "how-to fix watches" book protects the author's description of watch repair, but does not protect the watch repair process.<sup>74</sup> Anyone who reads the book can use the information communicated to repair a watch without risking liability.<sup>75</sup> In contrast, how-to, diagnostic software performs a function, namely "speaking" with the object's parts to diagnose the problem. A separate manual, similar to the how-to book, is then needed to complete the repair.<sup>76</sup> The software's copyright protects the code that instructs the function. Only a computer can read the software's code.<sup>77</sup> A computer reading the code necessarily performs the code's diagnostic function.<sup>78</sup> Hence, the software copyright protects the software's code and its function.<sup>79</sup> The Copyright Act's current version fails to account for this difference. The result is that an owner of a software copyright has greater rights than the owner of a traditional literary work.

The manner of dissemination further complicates the difference between a how-to book and diagnostic software. The how-to book author generally grants the right to print, publish and sell the work to a publisher, who then prints and distributes the work.<sup>80</sup> Effectively, this separates the intangible right, the copyright, from the tangible right, the physical copy.<sup>81</sup>

---

(stating that computer programs, because of their "highly functional, utilitarian" nature, are protected less than other literary works); *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1524-25 (9th Cir. 1992) (noting that copyrighted works receive different levels of protection based on their nature and that as a hybrid work, computer software receives less than other literary works).

<sup>73</sup> See Samuelson et al., *supra* note 66, at 2347 n.145.

<sup>74</sup> Nimmer & Krauthaus, *supra* note 67, at 332-33. Whether a consumer would read it for its prose alone is debatable. Regardless, the book is completely divorced of its function.

<sup>75</sup> *Id.* at 332.

<sup>76</sup> This manual, of course, is simply a type of how-to book. However, manuals differ from how-to books in that they are written by manufacturers for specific products. A manual author, generally a corporation, has a limited, easily targeted market for her work, unlike a how-to book author who must compete to secure a publisher and find an audience among similar works.

<sup>77</sup> Cass, *supra* note 41, at 43-44; Menell, *supra* note 59, at 1334.

<sup>78</sup> Nimmer & Krauthaus, *supra* note 67, at 332.

<sup>79</sup> *Id.*

<sup>80</sup> See LITMAN, *supra* note 49, at 16; Breyer, *supra* note 46, at 294-308.

<sup>81</sup> See, e.g., 17 U.S.C. § 202 (2001).

The author retains control over the copyright and the consumer gains control over the physical copy.<sup>82</sup> Once the work is sold, anyone with an interest in watch repair can buy a copy and use the information it contains without further permission from the author.<sup>83</sup>

In contrast, software is generally licensed, which allows the author to maintain control over both the copyright and the physical copy.<sup>84</sup> The software author directly controls who can read the work and under what terms. Anyone who uses a computer to read the diagnostic software information to make a repair risks liability, unless the software copyright holder grants specific permission. Thus, an author who licenses, rather than sells, a work maintains the same, in fact more, copyright protection than the author of a book, while the public loses protection of its rights to use the work.<sup>85</sup>

Licensing increases the copyright holder's control over the physical copy. This limits dissemination of the work and restricts the public domain.<sup>86</sup> In this way, licensing software skews the balance between rewarding the author and protecting the public good. The author profits from the license, but the public loses some of its access rights to the work. Allowing the copyright holder to unilaterally refuse to license a work, as recent cases have,<sup>87</sup> disrupts the balance even further.

---

<sup>82</sup> See generally HARRY G. HENN, HENN ON COPYRIGHT LAW: A PRACTITIONER'S GUIDE § 7.1 (3d ed. 1991).

<sup>83</sup> LITMAN, *supra* note 49, at 16; Nimmer & Krauthaus, *supra* note 67, at 332-33.

<sup>84</sup> The difference in manner of dissemination is, of course, simply the difference between a sale and a license. A license provides the author with ongoing control over that representation of the work, whereas a sale extinguishes an author's right in the tangible form of the work. The Uniform Computer Information Transactions Act's ("UCITA"), proposed Uniform Commercial Code Article 2B, further complicates the difference in dissemination methods by allowing copyright holders to expand their rights through contract law. UCITA is beyond the scope of this article, but for a discussion of its impact on intellectual property see Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111 (1999).

<sup>85</sup> For instance, the first sale doctrine does not apply to licenses. 17 U.S.C. § 109. See also *Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 2000 (N.D. Cal. 2000) (stating that only actual sale, not a license, triggers the first sale doctrine). Even if computer software is sold, an exception to the first sale doctrine exists to prohibit its rental. 17 U.S.C. § 109(b)(1)(a).

<sup>86</sup> See generally Litman, *Public Domain*, *supra* note 67; L. Ray Patterson, *Free Speech, Copyright, and Fair Use*, 40 VAND. L. REV. 1 (1987) [hereinafter *Free Speech*].

<sup>87</sup> See *Xerox*, 203 F.3d 1322 (Fed. Cir. 2000); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994); *Tricom v. Elec. Data Sys. Corp.*, 902 F. Supp. 741, 742-44 (E.D. Mich. 1995).

Refusing to license a work prevents any dissemination of the expression or the physical copy. This discourages learning from the work, at least until copyright protection ends, and it precludes an author from profiting.<sup>88</sup>

### III. STATE OF THE LAW REGARDING REFUSALS TO LICENSE COPYRIGHTED MATERIAL

Commentators and courts have begun to describe copyright law in terms of an author's control over her work.<sup>89</sup> This categorization disturbs the purpose and reality of copyright law. Once copyright ceases to be a bargain between the public and an author, and instead becomes "the right of a property owner to protect what is rightfully hers . . . allow[ing] us to skip right past the question of what it is, exactly, that ought to be rightfully hers,"<sup>90</sup> the public's rights, the basis for granting the protection, are forgotten.

The Federal Circuit's *Xerox* decision exemplifies this problem.<sup>91</sup> The case involved Xerox's refusal to sell or license diagnostic software and replacement parts to Independent Service Organizations ("ISOs"), whose business was to service high-speed copiers and printers.<sup>92</sup> Xerox implemented a "parts policy" in 1984 under which it refused to sell parts to ISOs who were not also end users of the product.<sup>93</sup> The policy went largely unenforced until 1989 when Xerox cut off supplies to the six most successful ISOs.<sup>94</sup> In 1991, Xerox unbundled the service manuals and diagnostic software from the copier and printer operating systems and used the copyrights on these to restrict

---

<sup>88</sup> Patterson, *Free Speech*, *supra* note 86, at 6-7.

<sup>89</sup> Professor Litman categorizes the evolution of the last 100 years of copyright law in terms of the metaphors used to describe the law. LITMAN, *supra* note 49, at 77-88. At the turn of the last century, copyright was described as a quid pro quo: the public granted authors exclusive rights to gain immediate dissemination and eventual free use. As the century progressed and Congress relaxed formal requirements, copyright was described as compensation: authors needed copyright to earn enough money to create more works. This evolved to an economic metaphor of incentives: copyright is needed to foster innovation. Today, copyright is described in terms of control. *Id.* at 78-81. The current metaphor discusses copyright in terms of a property that owners can "sell to the public (or refuse to sell) on whatever terms the owner chooses." *Id.* at 81.

<sup>90</sup> *Id.* at 81.

<sup>91</sup> 203 F.3d 1322 (Fed. Cir. 2000).

<sup>92</sup> *Id.* at 1324.

<sup>93</sup> *Id.*

<sup>94</sup> *In re Indep. Serv. Org. Antitrust Litig.* (Dec. 22 Decision), 989 F. Supp. 1131, 1133 (D. Kan. 1997).

ISO access to them.<sup>95</sup> A class of ISOs brought suit in 1994, which settled.<sup>96</sup> A group of ISOs involved in this case opted out of the settlement to file their own action against Xerox.<sup>97</sup> The ISOs claimed that Xerox's unilateral refusal to sell or license its copyrighted material violated the Sherman Act by precluding them from competing in the service market.<sup>98</sup> Xerox counterclaimed copyright infringement against the ISOs.<sup>99</sup> The district court granted summary judgment for Xerox, holding that absent unlawful acquisition of the copyright a unilateral refusal to license a copyrighted work, regardless of intent, does not violate the Sherman Act, even if the refusal harms consumers.<sup>100</sup>

In *Xerox*, the Federal Circuit was left to decide how the Court of Appeals for the Tenth Circuit would likely rule on the copyright claim after finding that neither the Tenth Circuit, nor the Supreme Court, had directly addressed whether a unilateral refusal to license copyrighted expression implicated antitrust regulations.<sup>101</sup> After reviewing decisions from other circuits that considered the issue, the Federal Circuit found the First Circuit's reasoning to be the most persuasive.<sup>102</sup> In *Data General Corp. v. Grumman Systems Support Corp.*, the First Circuit held that "while exclusionary conduct can include a monopolist's unilateral refusal to license a copyright, an author's desire to exclude others from use of its copyright work is a presumptively valid business justification for any immediate harm to consumers."<sup>103</sup> The court in *Data General*

---

<sup>95</sup> *In re Indep. Serv. Org. Antitrust Litig.* (Mar. 21 Decision), 964 F. Supp. 1469, 1472 (D. Kan. 1997).

<sup>96</sup> *Dec. 22 Decision*, 989 F. Supp. at 1133.

<sup>97</sup> *Id.*

<sup>98</sup> *Xerox*, 203 F.3d at 1324. The patent aspects of the case are beyond the scope of this article. For a discussion of these aspects of the case, see Jacobs & Mireles, *supra* note 1, at 294-95; James B. Kobak, Jr., *The Federal Circuit as a Competition Law Court*, 83 J. PAT. & TRADEMARK OFF. SOC'Y 527 (2001); Oettinger, *supra* note 10.

<sup>99</sup> *Xerox*, 203 F.3d at 1324.

<sup>100</sup> *Id.*

<sup>101</sup> *Id.* at 1328. The case was properly before the Federal Circuit, as that court has exclusive jurisdiction over patent appeals. 28 U.S.C. § 1295(a)(1) (1994). Thus, Federal Circuit law applied to the patent claims and Tenth Circuit law applied to the copyright claims. *Xerox*, 203 F.3d at 1325.

<sup>102</sup> *Xerox*, 203 F.3d at 1328-29. See also *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1186-90 (1st Cir. 1994). The court, however, failed to take into account the Microsoft case. There, Judge Jackson found that copyright law did not give Microsoft absolute discretion to license, or not license, its works. *United States v. Microsoft*, 98-CV-1232, 1998 U.S. Dist. LEXIS 14231, at \*49 (D.D.C. Sept. 14, 1998) *aff'd in part, rev'd in part, remanded in part* by 253 F.3d 54 (D.C. Cir. 2001).

<sup>103</sup> *Data Gen.*, 36 F.3d at 1187.



placed the burden on the plaintiff to rebut that presumption.<sup>104</sup> Following this reasoning, the Federal Circuit held that "Xerox's refusal to sell or license its copyrighted works was squarely within the rights granted by Congress" and did not violate the antitrust laws.<sup>105</sup>

The Ninth Circuit reached a different result based on strikingly similar facts in *Image Technical Services, Inc. v. Eastman Kodak Co.*<sup>106</sup> That court followed the First Circuit's reasoning, but with a modification.<sup>107</sup> It ruled that evidence of pretext could be used to rebut the presumption that a refusal to license was a presumptively valid business decision.<sup>108</sup> The court held that Kodak had used its intellectual property grants as a mask for anti-competitive conduct, thus requiring Kodak to license its software and parts to ISOs.<sup>109</sup> The Ninth Circuit relied on the Supreme Court's statement in a previous Kodak case that "[t]he Court has held many times that power gained through some . . . legal advantage such as a . . . copyright . . . can give rise to liability . . . ."<sup>110</sup>

The Federal Circuit in *Xerox* agreed that copyright does "not confer a privilege to violate the antitrust laws."<sup>111</sup> The

<sup>104</sup> *Id.* Only the rare cases of unlawful acquisition or illegal tying were deemed likely to prevail in rebutting the presumption.

<sup>105</sup> *Xerox*, 203 F.3d at 1329. The war between Xerox and service providers continues:

After nearly ten years of litigation, millions of dollars in attorneys' fees and numerous court orders including a final order of dismissal earlier this year, this case now boils down to the choice between (1) a settlement which requires CSU to pay \$1.4 million over five years at 8.5% interest and (2) a settlement which requires CSU to pay \$1.4 million over two years at 8.5% interest. Xerox—a Fortune 500 corporation with numerous worldwide affiliates—has decided to re-load its litigation weapons to force CSU—a company which annually purchases more than \$5 million in Xerox copier parts and pays \$1 million in Xerox license fees—to accept the latter choice or file for bankruptcy. Basic finance and business principles, as well as common sense, would appear to dictate against such a strategy. This dispute apparently must proceed, however, because it involves Xerox's arch-enemy in the copier service industry—CSU.

*CSU v. Xerox Corp.*, 202 F.R.D. 275, 276 (D. Kan. 2001).

<sup>106</sup> 125 F.3d 1195 (9th Cir. 1997). After ISOs began competing against Kodak to service their machines, Kodak restricted access to patented parts and copyrighted material to buyers who use Kodak services or repair their own machines. This forced some consumers to switch to Kodak for service even though the ISOs were less expensive and provided better service. *Id.* at 1200-01.

<sup>107</sup> *Id.* at 1218-19.

<sup>108</sup> *Id.* at 1219.

<sup>109</sup> *Id.* at 1219-20.

<sup>110</sup> *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 480 n.29 (1992).

<sup>111</sup> *Xerox*, 203 F.3d 1322, 1325 (Fed. Cir. 2000).

court, however, failed to acknowledge that copyright, as a statutorily granted right, is limited.<sup>112</sup> The statutory grant provided the “legal advantage” to which the Supreme Court previously referred.<sup>113</sup> The Federal Circuit’s finding that an unlimited right to exclude is “squarely” within the statutory grant ignored the purpose of the statute: to promote learning and innovation by providing an author with protection.<sup>114</sup> The statute, when read as a whole, indicates that the right to exclude has limits.<sup>115</sup> The Federal Circuit erred in not determining the proper scope of the right.

#### IV. SCOPE OF THE RIGHT TO EXCLUDE

This Section explores the Federal Circuit’s basis in *Xerox* for broadening the right to exclude and the policies that support copyright. The Federal Circuit’s basis proves to be a wobbly pedestal on which to construct an absolute right. This is due, in part, to the court’s reliance on dictum from a *Lochner* era case.<sup>116</sup> It is also due to the Federal Circuit’s failure to recognize the dual policies behind the copyright law—protecting authors and promoting learning—that must be balanced.

##### A. *Refusal to License Cases: The Faulty Rationale for an Unlimited Right to Exclude*

Recall that *Xerox* starts with the proposition that a copyright owner may, in his discretion, refuse to license or sell a copyrighted work.<sup>117</sup> This reasoning relies on dictum from a

---

<sup>112</sup> *Id.* at 1329. Finding that a copyright holder exceeded the copyright grant and issuing an injunction may be easier for courts than finding that the same behavior violated the antitrust laws, which carry treble damages.

<sup>113</sup> *Kodak*, 504 U.S. at 479 n.29.

<sup>114</sup> *Xerox*, 203 F.3d at 1329.

<sup>115</sup> For instance, 17 U.S.C. § 106 (2001) sets forth the exclusive rights of authors, but subjects them to the exceptions in §§ 107-122. To read the grant in § 106 as absolute unless a specific exemption is provided ignores the overall balancing scheme the Act attempts to achieve, and that the Constitution requires.

<sup>116</sup> The dictum comes from *Fox Film v. Doyal*, 286 U.S. 123 (1932). See also *infra* note 125 and accompanying text.

<sup>117</sup> *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1186 (1st Cir. 1994); *Image Technical Servs. v. Eastman Kodak Co.*, 125 F.3d 1195, 1215 (9th Cir. 1997); *Xerox*, 203 F.3d at 1328. At first glance, this appears to be a relatively benign statement. But if this statement were true then all of the power would reside with an author, who could then decide if the progress of the art should be furthered or not.

1932 Supreme Court case, *Fox Film v. Doyal*.<sup>118</sup> In *Fox Film*, the Court held that Congress created a new right granting property to an author, not to the federal government.<sup>119</sup> The Court went on to say that if a copyright owner wished, he "may refrain from vending or licensing and content himself with simply exercising the right to exclude others from using his property."<sup>120</sup>

Many problems exist with the Federal Circuit's wholesale adoption of the principle contained in the *Fox Film* quote.<sup>121</sup> Quite possibly, this quote had a specific contextual meaning, given that *Fox Film* was a tax case.<sup>122</sup> The sentences preceding that quote stated that Congress neither reserved any interest for the government, nor provided that the right created should be tax free.<sup>123</sup> Thus, one interpretation is that the Court was simply pointing out that if Fox wanted to forego the state tax, it could refrain from licensing its films in Georgia. However, the language "content himself with simply exercising the right to exclude others from using his property" points to a broader meaning.<sup>124</sup>

The better explanation for the quote appears to be the context in which it was decided. *Fox Film* was a *Lochner* era decision,<sup>125</sup> and this little-noted fact colors its meaning.

<sup>118</sup> 286 U.S. 123 (1932). *Fox Film* concerned whether copyrights were federal instruments and as such immune from state taxation. *Id.* at 126. Georgia charged a tax on the gross royalties from the license of a film. *Id.* Fox unsuccessfully argued that since the federal government granted copyright it was immune from the state tax. *Id.*

<sup>119</sup> *Id.* at 127.

<sup>120</sup> *Id.*

<sup>121</sup> *Xerox*, 203 F.3d at 1328.

<sup>122</sup> *Fox Film*, 286 U.S. 123.

<sup>123</sup> *Id.* at 127.

<sup>124</sup> *Id.*

<sup>125</sup> The *Lochner* Court was so named for its 1905 decision in *Lochner v. New York*, 198 U.S. 45 (1905), which struck down a state law limiting the maximum hours a baker could work on the ground that the law impermissibly interfered with the employer and employee's liberty of contract. *See also* *Adkins v. Children's Hosp.*, 261 U.S. 525, 545 (1923) ("Included in the right of personal liberty and the right of private property—partaking of the nature of each—is the right to make contracts for the acquisition of property."). I invoke the so-called "ghost of *Lochner*" here not to vilify the decision but to shed light on what Chief Justice Hughes meant in his discussion of copyright in the case. The label simply captures a discrete value set that informed Supreme Court jurisprudence of the period. While many commentators decry the *Lochner* cases as "constitutionally improper," others argue that they were consistent with and evolved constitutional jurisprudence. *Cf., e.g.,* Michael Les Benedict, *Laissez-Faire and Liberty: A Re-Evaluation of the Meaning and Origins of Laissez-Faire Constitutionalism*, 3 L. & HIST. REV. 293 (1985), with Stephen A. Siegel, *Lochner Era Jurisprudence and the American Constitutional Tradition*, 70 N.C. L. REV. 1 (1991).

Supreme Court decisions from this era<sup>126</sup> are notable for their emphasis on the supremacy of private property and freedom of contract.<sup>127</sup> Laissez-faire economics and social contract theory influenced the nature of property rights during this period.<sup>128</sup> Through its decisions, the Court promulgated the belief that government should let the “natural” laws of supply and demand govern markets without unnecessary interference.<sup>129</sup> Class-specific legislation that redistributed property was presumptively invalid as an impediment to economic liberty.<sup>130</sup> Copyright, as a type of property, was not immune from such beliefs.

While the *Lochner* Court continued to hold that copyright was wholly statutory,<sup>131</sup> the Court viewed the copyright statute as both enhancing and restraining an author’s common law property rights.<sup>132</sup> The statute enhanced rights because it held market participants to terms to which they had not agreed.<sup>133</sup> It forced participants to negotiate and gave special benefits to one side, copyright holders, rather than allowing market forces to bring parties together and exercise unfettered contract liberties.<sup>134</sup> To combat the statute’s effects, the Court narrowly read the Copyright Act and refused opportunities to expand it.<sup>135</sup> For instance, in *Bobbs-Merrill Co.*

<sup>126</sup> The *Lochner* era generally is defined from 1870-1937. Siegel, *supra* note 125, at 4 n.9. This article focuses on cases from 1905-1937.

<sup>127</sup> See G. Edward White, *Revisiting Substantive Due Process and Holmes’s Lochner Dissent*, 63 BROOK. L. REV. 87, 88 (1997). See also *Coppage v. Kansas*, 236 U.S. 1 (1915) (striking down a law that prohibited employers from refusing to let employees join unions because it interfered with private property and liberty rights). For an interesting view that *Lochner* doctrine is alive and well in the shaping of modern cyberspace law see Julie E. Cohen, *Lochner in Cyberspace: The New Economic Orthodoxy of “Rights Management,”* 97 MICH. L. REV. 462 (1998).

<sup>128</sup> Benedict, *supra* note 125, at 298; White, *supra* note 127, at 88.

<sup>129</sup> Cohen, *supra* note 127, at 469.

<sup>130</sup> *Id.* at 470. Under this theory, class specific laws were valid if they protected those who were unable to exercise their liberty rights, i.e., those without bargaining power or “wards of the state.” *Muller v. Oregon*, 208 U.S. 412, 422 (1908) (upholding a law limiting the hours women could work because “there is that in [a woman’s] disposition and habits of life which will operate against a full assertion of [her liberty] rights”). See also Benedict, *supra* note 125, at 305-11.

<sup>131</sup> *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932); *White-Smith Music Publ’g. Co. v. Apollo Co.*, 209 U.S. 1, 15 (1908).

<sup>132</sup> See generally *White-Smith*, 209 U.S. at 19 (Holmes, J., concurring) (“[T]he result [of this decision] is to give copyright less scope than its rational significance . . . .”); *Globe Newspaper Co. v. Walker*, 210 U.S. 356, 362-65 (1908) (holding that the statutory remedies contract an owner’s rights).

<sup>133</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

<sup>134</sup> See generally *id.*

<sup>135</sup> See, e.g., *White-Smith*, 209 U.S. 1; *Bobbs-Merrill*, 210 U.S. 339. Justice

*v. Straus*, the copyright holder argued that the right "to vend" included the ability to dictate future sales terms.<sup>136</sup> The Court held that the right to vend did not allow copyright owners who sold books wholesale to dictate subsequent prices.<sup>137</sup> The Court noted that to do so would impose a limitation on purchasers who were not in privity of contract with the copyright holder, i.e., who had not bargained for those terms.<sup>138</sup>

In perhaps the most controversial copyright case of the period, *White-Smith Music Publishing Co. v. Apollo Co.*, the Court narrowly construed the statute to protect a developing industry from feared monopolistic pricing.<sup>139</sup> In *White-Smith*, the Court held that a piano roll did not infringe music composers' copyrights because the perforated sheets were not copies of the sheet music.<sup>140</sup> The opinion noted the impressive growth of the piano roll industry.<sup>141</sup> It characterized the case as important because it involved the piano roll industry's "large property interests" while "touching" upon rights of composers and publishers.<sup>142</sup> The Court then narrowly defined "copy" as "a written or printed record . . . in intelligible notation."<sup>143</sup> Since humans could not read the perforated sheets in question, they were not copies, and thus not protected by the statute.<sup>144</sup> The ruling protected the piano roll industry from the expense of paying for the music played on its machines.<sup>145</sup> If the perforated

---

Holmes wrote the only opinion that expanded copyrights during this period. *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911) (holding that a film dramatization of scenes from "Ben Hur" infringed the author's copyright). Holmes deftly categorized the infringing motion picture as a "well known form of reproduction" to overcome the problem of whether a film "copied" a book, so that the Court could not find Congress at fault for not including it in the statute. *Id.* at 63. The Supreme Court did, however, go to lengths to protect profitable businesses where copyright did not. *See Int'l News Serv. v. Associated Press*, 248 U.S. 215, 236-41 (1918) (holding that news gathering was quasi property and enjoining INS from using AP stories without its permission).

<sup>136</sup> *Bobbs-Merrill*, 210 U.S. at 343.

<sup>137</sup> *Id.* at 350-51.

<sup>138</sup> *Id.*

<sup>139</sup> *White-Smith*, 209 U.S. 1. *See generally* Paul S. Rosenlund, *Compulsory Licensing of Musical Compositions for Phonorecords Under the Copyright Act of 1976*, 30 HASTINGS L.J. 683 (1979).

<sup>140</sup> *White-Smith*, 209 U.S. at 13-14.

<sup>141</sup> *Id.* at 9-10.

<sup>142</sup> *Id.* at 9.

<sup>143</sup> *Id.* at 17.

<sup>144</sup> *Id.* at 18.

<sup>145</sup> In the 1909 Act, Congress specifically granted copyright holders control over mechanical reproductions of music. Act of March 4, 1909, § 1(e), *reprinted in* BOWKER, *supra* note 16, at app. I. Congress also recognized the fear of monopoly pricing and included the compulsory license as a remedy. H.R. REP. NO. 60-2222, at 9 (1909). *See also* Harry Henn, *The Compulsory License Provision of the U.S. Copyright*

sheets were copies within the statute, music publishers could charge monopoly prices on the music, threatening the industry's growth.

The Copyright Act also restrained rights by limiting available remedies and duration of the rights.<sup>146</sup> Congress not only created a new right when it enacted the Copyright Act, it also created the specific remedies for that right.<sup>147</sup> For example, under the pre-1909 Copyright Act, the penalty for infringement of copyright in a map was the destruction of plates and copies, and damages, one half of which went to the federal government.<sup>148</sup> Congress revised the Copyright Act in 1909 but specified that for infringement "in lieu of actual damages . . . such damages as to the court shall appear to be just . . . but . . . such damages shall in no other case exceed . . . five thousand dollars nor be less than . . . two hundred and fifty dollars."<sup>149</sup> The *Lochner* Court found these remedies "[i]nadequate . . . to fully protect the property in the copyright."<sup>150</sup> The Court granted judges as much discretion as possible under the statute to decide damage amounts.<sup>151</sup>

Moreover, the balance between the author's rights and the public good fundamentally shifted during the *Lochner* era. Earlier nineteenth century caselaw recognized that the law needed to balance individual rights with the public good; authors should be compensated for their efforts and the public should not be deprived the resulting improvements.<sup>152</sup> By 1908,

---

Law, SUB. COMM. ON THE JUDICIARY, COPYRIGHT LAW REVISION STUDIES PREPARED FOR THE SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS, at 3 (Comm. Print 1960), *reprinted in* 1 OMNIBUS COPYRIGHT REVISION LEGISLATIVE HISTORY (G. Grossman ed., 1960). This compulsory license continues today at 17 U.S.C. § 115 (2002).

<sup>146</sup> *Globe Newspaper Co. v. Walker*, 210 U.S. 356, 365-66 (1908) (describing §§ 4963-67 and 4370 as specifying specific remedies). Under the first Copyright Act, copyright existed for fourteen years from the time of first publication and could be renewed for an additional fourteen years. Act of May 31, 1790, *reprinted in* SOLBERG, *supra* note 20, at 32-34. The copyright term under the 1909 Act was for twenty eight years from the time of first publication with a renewal term of twenty eight years. Act of March 4, 1909, § 24, *reprinted in* BOWKER, *supra* note 16, at 475-77.

<sup>147</sup> *Globe Newspaper Co.*, 210 U.S. at 365.

<sup>148</sup> *Id.* at 366.

<sup>149</sup> *See, e.g.*, Act of March 4, 1909, § 25(b), *reprinted in* BOWKER, *supra* note 16, at 475-76.

<sup>150</sup> *Globe Newspaper Co.*, 210 U.S. at 364.

<sup>151</sup> *Douglas v. Cunningham*, 294 U.S. 207, 210 (1935) (allowing the trier of fact discretion in measuring the damage amount so long as within the statutory boundaries).

<sup>152</sup> *Blunt v. Patten*, 3 F. Cas. 763, 765 (C.C.S.D.N.Y. 1828) (No. 1,580) (quoting Lord Mansfield). *See also* *Kendall v. Winsor*, 62 U.S. 322, 327-28 (1858) ("[T]he limited

this changed. The Supreme Court in *Bobbs-Merrill* found that the "main purpose" of the copyright law was to secure the benefit of the author.<sup>153</sup> The Court used the 1790 Act's title, "an act for the encouragement of learning, by securing the copies . . . to the authors," as evidence of the primacy of the individual right.<sup>154</sup> That interpretation failed to recognize that securing the individual's right was a means to the goal of increased public learning and did not survive the era.<sup>155</sup>

The *Fox Film* decision is actually the only *Lochner* era case to acknowledge the proper balance of the copyright statute. Chief Justice Hughes stated in *Fox Film* that "[t]he sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors."<sup>156</sup> Hughes cited a 1858 patent case that stated that an "inventor who designedly . . . and exclusively for his own profit, withholds his invention from the public, comes not within the policy or objects of the Constitution or acts of Congress. He does not promote, and, if aided in his design, would impede, the progress of sciences and the useful arts."<sup>157</sup> This acknowledgement of the public good makes the Federal Circuit's broad reading in the *Xerox* opinion of the *Fox Film* quote that a copyright owner may arbitrarily exclude others<sup>158</sup> even more dubious. Essentially, the Federal Circuit's interpretation of the *Fox Film* quote authorizes an author to withhold his creation from the public, impeding the utilitarian policies that support the copyright grant.

---

and temporary monopoly granted . . . was never designed for [an author's] exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly.").

<sup>153</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 347 (1908). See also *Bong v. Alfred S. Campbell Art Co.*, 214 U.S. 236, 246 (1909) ("[T]he statute must be read in the light of the intention of Congress to protect these intangible rights as a reward of the inventive genius that has produced the work.") (internal quotation omitted).

<sup>154</sup> *Bobbs-Merrill*, 210 U.S. at 347. Further evidence of the shift in balance can be found in *American Tobacco Co. v. Werckmeister*, 207 U.S. 284 (1907). There, the Court used a law dictionary for the definition of a copyright, including "the foundation of all rights of this description is the natural dominion which every one has over his own ideas, the enjoyment of which, although they are embodied in visible forms or characters, he may, if he chooses, confine to himself or impart to others." *Id.* at 291 (citation omitted). This definition clearly was at odds with the statutory right to vend and publish copies of a work for a limited period of time.

<sup>155</sup> *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948) ("The copyright law . . . makes reward to the owner a secondary consideration.").

<sup>156</sup> *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932).

<sup>157</sup> *Kendall*, 62 U.S. at 328.

<sup>158</sup> *Xerox*, 203 F.3d 1322, 1328 (Fed. Cir. 2000). See also, *supra* notes 117-30.

In all fairness to the Federal Circuit, it borrowed the *Fox Film* language from the First Circuit's *Data General* decision, which cited the Supreme Court case of *Stewart v. Abend* for the unlimited right to exclude position.<sup>159</sup> Justice O'Connor, in *Stewart*, stretched the *Fox Film* quote to its limits, stating: "nothing in the copyright statutes would prevent an author from hoarding all of his works during the term of the copyright . . . this Court has held that a copyright owner has the capacity arbitrarily to refuse to license."<sup>160</sup> While courts cited *Fox Film* frequently from 1932 to 1990 for its tax holding and the copyright balancing language, no court cited it to justify the arbitrary right of a copyright owner to hoard his works.<sup>161</sup> Further, the *Stewart* use of the language from *Fox Film* is inappropriate on at least two points. First, *Fox Film* did not hold that an author had a right to hoard; it was a tax case, and therefore that line was merely dictum.<sup>162</sup> Second, numerous other provisions within the copyright statute, e.g., fair use<sup>163</sup> and compulsory licenses,<sup>164</sup> prevent an author from hoarding his work. Moreover, the Constitution specifies that the purpose of congressional power to grant copyrights is to promote the progress of science and the useful arts.

It is possible, since the question in *Stewart* concerned licensing for the renewal term, that Justice O'Connor meant that an author could hoard the right of renewal.<sup>165</sup> This narrow interpretation would be more in keeping with constitutional goals, because the work would already have been published and any further progress during the renewal period would be

---

<sup>159</sup> 495 U.S. 207 (1990). See also *Xerox*, 203 F.3d at 1328; and *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147 (1st Cir. 1994).

<sup>160</sup> *Stewart*, 495 U.S. at 228-29 (citing *Fox Film*, 286 U.S. at 127).

<sup>161</sup> For the tax cases see *New York v. United States*, 326 U.S. 572, 578 (1946); and *Graves v. New York*, 306 U.S. 466, 481 (1939). For the copyright cases see *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984); *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975); and *Mazer v. Stein*, 347 U.S. 201, 214 (1954).

<sup>162</sup> See Kauffman, *supra* note 16, at 413.

<sup>163</sup> 17 U.S.C. § 107 (2002).

<sup>164</sup> 17 U.S.C. §§ 114(d), 115, 116.

<sup>165</sup> *Stewart*, 495 U.S. at 211. The writer of the story on which Hitchcock based the film *Rear Window* promised to assign his renewal term rights to the filmmakers, but died before the renewal term commenced. The writer's estate renewed the copyright pursuant to § 24 of the 1909 Act and assigned it to Abend, who sued for infringement when the film was broadcast on television during the renewal period. *Id.* at 211-15. The Court held that the filmmakers' rights expired after the initial twenty-eight year term and any further use of the film without a license for the underlying story infringed the story's copyright owner's rights. *Id.* at 223-26.



minimal. If authors were allowed to hoard their works at any time, however, progress certainly would not be promoted.<sup>166</sup> It is difficult to promote progress if a work is not disseminated to the public. Justice O'Connor indicated that the statutory term limit is adequate to promote progress.<sup>167</sup> Yet, as copyright terms increase this provides rather flaccid protection.<sup>168</sup>

#### B. *Policies Behind the Right to Exclude*

If the right to exclude permits an author to withhold his work, then "science and the useful arts" will not progress.<sup>169</sup> Exclusive rights are granted to an author to spur progress.<sup>170</sup> "[C]opyright assures authors the right to their original expression, but encourages others to build freely upon the ideas and information conveyed by a work."<sup>171</sup> The Federal Circuit's decision in *Xerox* that the right to exclude includes the absolute right to withhold permits application of the right to eclipse its purpose.<sup>172</sup>

The bundle of rights involved in a copyright grants an author a period of time free from competition, in which the costs of creating the protected expression can be recouped.<sup>173</sup> This financial incentive encourages authors to continue creating. The Supreme Court recognized this policy in *Mazer v. Stein*, stating:

The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in "Science and useful Arts." Sacrificial days devoted to such creative activities deserve rewards commensurate with the services rendered.<sup>174</sup>

<sup>166</sup> Patterson, *Free Speech*, *supra* note 86, at 7.

<sup>167</sup> *Stewart*, 495 U.S. at 228-29.

<sup>168</sup> For instance, the Microsoft operating system, Windows 95, will not fall into the public domain until 2090. 17 U.S.C. § 302(c) (copyright in a work made for hire subsists for ninety-five years). By that time it will long be obsolete.

<sup>169</sup> Patterson, *Free Speech*, *supra* note 86, at 7 ("[L]earning requires access to the work in which the ideas to be learned are embodied . . . there can be no access without distribution.").

<sup>170</sup> "The primary objective of copyright is not to reward the labor of authors, but '[t]o promote the Progress of Science and useful Arts.'" *Feist Publ'ns, Inc. v. Rural Tel. Serv.*, 499 U.S. 340, 349 (1991) (quoting U.S. CONST. art. I, § 8, cl. 8).

<sup>171</sup> *Id.* at 349-50.

<sup>172</sup> *Xerox*, 203 F.3d 1322, 1328-29 (Fed. Cir. 2000).

<sup>173</sup> See generally Landes & Posner, *supra* note 14.

<sup>174</sup> *Mazer v. Stein*, 347 U.S. 201, 219 (1953). See also *supra* note 14.

Allowing an author to hoard a work is contrary to this policy.<sup>175</sup> If the work is not in use, then it is not enhancing public welfare and cannot be compensated.<sup>176</sup>

The exclusive right encourages creativity while also affording the author's work adequate protection. However, the exclusive grant also carries social costs. If the grant is too broad, it discourages other authors from furthering the innovation. Allowing competition lowers costs, increases variety, choice and efficiency and improves quality. As Professor Chafee noted:

The protection given the copyright-owner should not stifle independent creation by others. Nobody else should market the author's book, but we refuse to say nobody else should use it. The world goes ahead because each of us builds on the work of our predecessors. "A dwarf standing on the shoulders of a giant can see farther than the giant himself."<sup>177</sup>

When the giant denies access to those shoulders everyone suffers from the resulting vision loss. Precluding competition stifles creativity and prevents the introduction of new ideas, thereby decreasing the public good and discouraging individual efforts.

Rather than encourage competition, however, copyright laws are becoming ratchet like.<sup>178</sup> Congress and the courts continue to increase the copyright holders' rights at the public's expense.<sup>179</sup> Due to industry lobbying, the terms are getting longer, penalties are growing and exceptions are shrinking.<sup>180</sup> Assuming that there is a finite amount of intellectual property protection that will promote innovation, any protection beyond that point will decrease innovation. Once that point is reached,

---

<sup>175</sup> See generally Patterson, *Free Speech*, *supra* note 86.

<sup>176</sup> *Id.* at 7.

<sup>177</sup> Zachariah Chafee, Jr., *Reflections on Copyright Law*, 45 COLUM. L. REV. 503, 511 (1945).

<sup>178</sup> David McGowan, *Innovation, Uncertainty, and Stability in Antitrust Law*, 16 BERKELEY TECH. L.J. 729, 778 (2001).

<sup>179</sup> LITMAN, *supra* note 49, at 80.

<sup>180</sup> McGowan, *supra* note 178, at 778 (citing Frank H. Easterbrook, *Cyberspace Versus Property Law*, 4 TEX. REV. L. & POL. 103, 108 (1999) [hereinafter *Cyberspace*]); Copyright Term Extension Act of 1998 17 U.S.C. § 1201 (1998) (extending copyright terms); and the Digital Millennium Copyright Act, 17 U.S.C. § 1201 (narrowing the exception for reverse engineering)). Criminal sanctions for copyright infringement also continue to grow. See, e.g., No Electronic Theft Act, Pub. L. No. 105-147, 111 Stat. 2678 (1997) (codified in scattered sections of 17, 18, & 28 U.S.C.). Acceptance of proposed Uniform Commercial Code Article 2B also would allow a copyright holder to expand his rights through contract law. See Lemley, *supra* note 84.

reduced innovation can be ameliorated by licensing the protected work to other innovators.<sup>181</sup> If the copyright holder refuses to license, however, she creates a holdout problem and stifles innovation. Without a mechanism to alleviate the holdout problem, exclusivity will promote stagnation rather than progress.

To prevent the holdout problem, exclusivity should be limited to use.<sup>182</sup> Copyright holders such as Xerox would argue that they were using their protected expression, they simply prohibited others from also using it. However, such use does little to promote the useful arts or competition. The idea behind software can be kept secret if not disseminated. Diagnostic software is not "published" like a patent, thus an independent service provider could not improve on the idea. Further, the service provider could not employ its own creativity to compose different software that performs the same function because Xerox controls the machine on which the software works. "Use," in the software sense, should then mean allowing others access to the software, allowing the ISO dwarves to stand on the giant's, Xerox, shoulders. Only through access will others have the opportunity to improve upon the product and simultaneously foster competition.<sup>183</sup>

## V. COMPULSORY LICENSING FOR SOFTWARE

Where copyright holders refuse to license software, compulsory licenses present a mechanism to maintain the proper balance between public access and copyright protection.<sup>184</sup> A compulsory license allows an individual access to a copyrighted work so long as a royalty fee is paid to the work's owner.<sup>185</sup> Such a process promotes the dual policies of

---

<sup>181</sup> McGowan, *supra* note 178, at 778.

<sup>182</sup> S. Delvalle Goldsmith, *The Case for "Restricted" Compulsory Licensing*, 2 APLA Q. J. 146, 150-51 (1974).

<sup>183</sup> Patterson, *Free Speech*, *supra* note 86, at 7-9.

<sup>184</sup> For a thorough discussion of the compulsory licenses in the patent context, including a discussion of international compulsory license provisions, see Joseph A. Yosick, Note, *Compulsory Patent Licensing for Efficient Use of Inventions*, 2001 U. ILL. L. REV. 1275.

<sup>185</sup> Cassler, *supra* note 46, at 232. While some have argued that compulsory licenses are an unconstitutional limitation to an author's exclusive rights, Karl Fenning, *The Origin of the Patent and Copyright Clause of the Constitution*, 17 GEO. L.J. 109, 116-17 (1929), the more accepted view is that the Constitution grants Congress the power to determine the scope of copyright. 1 NIMMER, *supra* note 19, § 1.07. The constitutionality of the compulsory license provisions has never been challenged. Cassler, *supra*, at 237. However, the *Wheaton* case provided an indication

copyright law because it allows dissemination of the work and the copyright holder to profit.

Both Congress and the courts can authorize a compulsory license. Amending the copyright statute is the clearest method to create a compulsory license.<sup>186</sup> An amendment has the benefit of uniformity and predictability.<sup>187</sup> However, statutory compulsory licenses are inflexible and fail to account for geographic differences in price.<sup>188</sup> Alternatively, courts can also use their equity powers to require compulsory licenses.<sup>189</sup> While a judicial compulsory license is less predictable than a statute, it can take into account specific industry conditions and tailor fees. Such flexibility would benefit the dynamic nature of the software market while maintaining the appropriate balance between the holder and the public. Additionally, as courts apply compulsory licenses, more predictability would emerge.

Generally, Congress and the courts limit the use of compulsory licenses to special circumstances where the license can curb monopolistic practices and alleviate high transaction costs.<sup>190</sup> Compulsory licenses are not necessary for all or even most copyrighted works. Basic economics instructs that when willing buyers and willing sellers exist in a competitive market, normal bargaining and legal regimes will foster deals.<sup>191</sup> Cases involving refusals to license software, like *Xerox*, however, are different. These cases involve unwilling sellers in non-competitive markets. The markets are non-competitive not by

---

that the compulsory licenses are constitutional with the comment that "[n]o one can deny that when the legislature are about to vest an exclusive right in an author or an inventor, they have the power to prescribe the conditions on which such right shall be enjoyed . . . ." *Wheaton v. Peters*, 33 U.S. 591, 663-64 (1834).

<sup>186</sup> For a discussion of the existing compulsory licensing provisions in the Copyright Act see Cassler, *supra* note 46.

<sup>187</sup> Goldsmith, *supra* note 182, at 153.

<sup>188</sup> Cassler, *supra* note 46, at 253.

<sup>189</sup> See *Image Technical Servs. v. Eastman Kodak*, 125 F.3d 1195 (9th Cir. 1997); *Foster v. Am. Mach. & Foundry Co.*, 492 F.2d 1317 (2d Cir. 1974) (awarding reasonable royalty fees rather than granting injunctive relief). Administrative agencies also can order compulsory licenses. See, e.g., *In re Xerox Corp.*, 86 F.T.C. 364, 373 (1975) (granting a compulsory license for office copiers).

<sup>190</sup> See, e.g., 17 U.S.C. §§ 111 (record companies), 115 (cable television), 118 (satellite carriers) and 119 (public broadcasting). See also Cassler, *supra* note 46, at 249-53; Aram Dobalian, Note, *Copyright Protection For the Non-Literal Elements of Computer Programs: The Need For Compulsory Licensing*, 15 WHITTIER L. REV. 1019, 1066-70 (1994).

<sup>191</sup> See Lee, *supra* note 22, at 211. For example, this was the world that existed between Xerox and the ISOs prior to Xerox's refusal to license its products. *Xerox*, 203 F.3d 1322, 1324 (Fed. Cir. 2000).

natural market selection, but because of an artificially-imposed legal regime: copyright law. Since copyright law created the situation, it seems appropriate that it should also alleviate its harmful effects.

In refusal to license software cases, a compulsory license will prevent copyright holders from precluding competition in ancillary service markets and increase consumer service options. In addition, a statutory compulsory license will alleviate the transaction costs of bargaining around the different courts of appeal rules.<sup>192</sup> Further, a compulsory license for software reduces the harshness of the copyright term. Protecting computer software for ninety-five years is senseless given the short useful life of a software program.<sup>193</sup> Finally, a compulsory license for software supports wide dissemination of information, an implicit goal of the copyright clause and the First Amendment.<sup>194</sup> Since software at least partially protects ideas in addition to expression, the First Amendment implications are greater than with other copyrighted materials.<sup>195</sup>

The arguments against compulsory licenses are twofold. Philosophically, opponents argue that compulsory licenses interfere with property ownership.<sup>196</sup> Economically, opponents maintain that compulsory licensing schemes are inefficient and discourage creativity.<sup>197</sup> These economic arguments generally focus on the royalty rate and copyright holders to the exclusion of public policies behind copyright law.<sup>198</sup>

Since copyright is a congressionally created right, it does not carry the same privileges as real property ownership.<sup>199</sup> Therefore, the philosophical argument that a compulsory license constitutes a "taking" fails. What Congress gives, it can take away.<sup>200</sup> Further, while some individual

<sup>192</sup> See *supra* notes 91-115 and accompanying text. See also Lee, *supra* note 22, at 223-24. Of course, judicially created compulsory licenses would not have this effect.

<sup>193</sup> 17 U.S.C. §§ 201(b), 302(a) & (c) (2001). See also *supra* note 168.

<sup>194</sup> Cassler, *supra* note 46, at 242-44.

<sup>195</sup> *Id.* at 243. See also Patterson, *Free Speech*, *supra* note 86.

<sup>196</sup> Cassler, *supra* note 46, at 242-43.

<sup>197</sup> Easterbrook, *Cyberspace*, *supra* note 180 (arguing that we do not know enough about intellectual property to propose new rules); Lee, *supra* note 22; Leroy Whitaker, *Compulsory Licensing—Another Nail in the Coffin*, 2 APLA Q. J. 155, 163-65 (1974).

<sup>198</sup> See generally Lee, *supra* note 22.

<sup>199</sup> See *supra* notes 31-32 and accompanying text.

<sup>200</sup> See 1 NIMMER, *supra* note 19, § 1.07.

authors can claim moral rights in their work and defend against compulsory licensing on the ground that they need to control their work to prevent distortions,<sup>201</sup> software creators are largely companies who do not hold such moral rights.<sup>202</sup> Any “distortion” to software likely would entail improving the software’s unprotected function to work better, or at least differently.

Economic opponents claim that compulsory licenses are inefficient because they are an inflexible government control that distorts the market.<sup>203</sup> This school of thought defines efficiency as exploitation of “economic resources in such a way that ‘value’—human satisfaction as *measured by aggregate consumer willingness to pay for goods and services*—is maximized.”<sup>204</sup> They argue that since a compulsory license is involuntary it cannot reflect the true market price.<sup>205</sup> This argument fails on two levels. First, the degree to which a compulsory license for software would distort the market depends on how the fee is structured.<sup>206</sup> Congress or the courts can designate that the parties bargain and the fee reflect market price.<sup>207</sup> In *Xerox*, since there was an ongoing market prior to Xerox’s refusal to license,<sup>208</sup> the true market price would be less difficult to determine than when no voluntary market existed. Second, the market by its very nature is distorted because it is based on an artificial right: copyright. A compulsory license prevents that artificial distortion from growing too large. Refusing to license does not reflect a true market price because it eliminates competition. If only Xerox can exploit the software, the service price will not reflect true market “value” because a consumer would have little choice but

---

<sup>201</sup> 17 U.S.C. § 106A (2002). The moral rights provision is, however, limited to works of visual art as defined in 17 U.S.C. § 101.

<sup>202</sup> See Lee, *supra* note 22, at 203 n.4. Even individual software creators would not fit into the defined category of moral rights holders. See 17 U.S.C. §§ 101, 106A (2000).

<sup>203</sup> Lee, *supra* note 22; Whitaker, *supra* note 197, at 163-65.

<sup>204</sup> Lee, *supra* note 22, at 211 (quoting RICHARD POSNER, *ECONOMIC ANALYSIS OF LAW* 10 (2d ed. 1977)).

<sup>205</sup> *Id.* at 193.

<sup>206</sup> Cassler, *supra* note 46, at 252-55.

<sup>207</sup> For instance, 17 U.S.C. § 116 (2000) instructs jukebox operators to negotiate with copyright holders for appropriate fees. 2 NIMMER, *supra* note 19, § 8.17[c]. Tension between that particular compulsory license and the Berne Convention necessitated change in the compulsory license, from a statutorily dictated fee to a negotiated fee. *Id.*

<sup>208</sup> *Xerox*, 203 F.3d 1322, 1322, 1324 (Fed. Cir. 2000).

to pay the price Xerox demands. Thus, even if a compulsory license imperfectly reflects market value, it is more efficient for the end consumer than allowing Xerox to maintain a service monopoly.

Opponents also argue that compulsory licenses discourage creativity because they prohibit creators from recouping their research and development costs.<sup>209</sup> The argument is that companies like Xerox need the excess profits made from servicing their machines to recoup the research and development costs incurred to create the machine and diagnostic software. The ISOs offered service for less because they did not have research costs. Allowing the ISOs to use the software permits them to benefit from Xerox's labor and creates a disincentive for Xerox to invest in future research and development. This argument, however, fails for three reasons.<sup>210</sup> First, the argument assumes that only Xerox is entitled to benefit from its creation. Since the source of this entitlement is copyright law, Xerox's incentive must be balanced against the harm society incurs in granting the right.<sup>211</sup> While providing an incentive to create is vital, it is a secondary concern in copyright law.<sup>212</sup> Second, Xerox will recoup research and development costs through the licensing fees in addition to the fees it charges for service.<sup>213</sup> The ISO's service price will reflect the licensing fee, bringing it more in line with Xerox's price. Finally, research and development costs are far more likely to be recouped in the sale price of the

---

<sup>209</sup> Easterbrook, *Cyberspace*, *supra* note 180, at 106; Lee, *supra* note 22, at 221; Whitaker, *supra* note 197, at 163-65.

<sup>210</sup> See also *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 470-79 (1992) (dismissing Kodak's similar arguments that raising prices in the service aftermarkets would not make economic sense because consumers would buy less equipment).

<sup>211</sup> Congress, in discussing the new 1909 compulsory licensing provisions observed:

The main object to be desired in expanding copyright protection accorded . . . has been to give to the composer an adequate return for the value of his [creation] . . . and at the same time prevent the formation of oppressive monopolies, which might be founded upon the very rights granted to the [author] for the purpose of protecting his interests.

1909 LEGISLATIVE HISTORY, *supra* note 19, at S7; see also Weinreb, *supra* note 23, at 1215.

<sup>212</sup> *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("[C]opyright law . . . makes reward to the owner a secondary consideration.") (quoting *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948)).

<sup>213</sup> Again, a judicial compulsory license may be better suited to allowing parties to reach a reasonable fee. However, it would be less efficient because it raises administrative and transaction costs.

machine than in the service aftermarket. A software compulsory licensing scheme balances both policies by compensating the copyright holder and promoting the useful arts.

## CONCLUSION

The constitutional foundation of copyright law, as well as subsequent congressional developments, support defining the proper scope of an author's right to exclude. Defining this scope requires maintaining the balance between promoting public access and compensating innovation. The Federal Circuit's decision in *Xerox* permits a copyright holder to hoard his work.<sup>214</sup> This tips the balance in favor of copyright holders and promotes neither policy objective of copyright law. Compulsory licenses present a measured and efficient method for courts or Congress to strike the appropriate balance.

*Catherine Parrish*<sup>†</sup>

---

<sup>214</sup> *Xerox*, 203 F.3d 1322, 1322, 1324 (Fed. Cir. 2000).

<sup>†</sup> B.A. University of Utah; J.D. Candidate 2003, Brooklyn Law School. Thank you Leo Raskind for assistance with the topic, and Samuel Murumba for enriching my understanding of copyright law. Special thanks to Matthew J. Lake for ongoing support.



