
BEFORE THE UNITED STATES COPYRIGHT OFFICE

**COMMENTS OF THE OWNERS' RIGHTS INITIATIVE ON THE ROLE OF
COPYRIGHT LAW WITH RESPECT TO SOFTWARE-ENABLED CONSUMER
PRODUCTS**

The Owners' Rights Initiative (ORI) is an organization of over 20 companies and trade associations that have joined together to protect ownership rights in the United States.¹ We believe in the fundamental premise that **if you bought it, you own it**, and should have the right to sell, lend, or give away your personal property. ORI formed when the *Kirtsaeng v. Wiley* case was pending before the Supreme Court. We now are dedicated to preserving that holding, and making sure that it is not undermined in Congress, the executive branch, or in the courts. We also work to protect the principles of the first sale doctrine as technology continues to evolve, such as when software is incorporated into other products. Additionally, we try to prevent the misuse of IP law as a trade barrier that obstructs legitimate competition in other countries.

We appreciate this timely study on the impact of copyright law on software-enabled consumer products. At the outset, we note that we do not believe the inquiry should be limited to “consumer products” or “everyday products.” These distinctions have little meaning in a world where individuals run businesses out of their homes on

¹ A list of ORI members can be found at <http://ownersrightsinitiative.org/about/>.

- **Bundling of maintenance contracts.** Some manufacturers will use control over the essential software as a means of forcing purchasers of used equipment to buy additional services from them. IBM, for example, will charge purchasers of used equipment a fee for software updates, but will provide the updates for free to purchasers that enter into maintenance agreements.⁴

rights to sell it to you. This means that if you purchased the product from

product and which cannot be copied during the ordinary operation or use of the machine or product.” 17 U.S.C. § 109(b)(1)(B)(i).

Preserving the resale rights of consumers of physical products that contain software is important for reasons that go beyond the protecting the economic interests of these consumers and the secondary market consumers who would purchase these products. If the manufacturer refuses to provide to the secondary market consumer the security patches it provides to the original consumer, the security of the secondary consumer’s computer system could be compromised.⁷ Such security patches typically are provided to the original consumer free of charge. In essence, the original purchase price entitles the consumer to receive security patches and other patches that fix bugs in the program.

Preserving a secondary market in these physical products is also important for the environment. If older products can be refurbished and resold, those products stay out of landfills. Moreover, the recycling of the older products reduces the need to mine raw materials and produce new components.

We recognize that the problem of restrictions placed on software essential to the operation of hardware implicates complex issues of legal theory at the intersection of Constitutional preemption, the Copyright Act, antitrust law, and contract law.⁸ Nonetheless, this is a very concrete practical problem of manufacturers attempting to leverage the copyright in a component into perpetual control over a much larger device. At present, primarily manufacturers of computer and telecommunications equipment

⁷ Cisco’s FAQ makes clear that a reseller “is not authorized to provide yo

misuse software license agreements to interfere with resale. Yet as more products are distributed with pre-

IV. The Enforceability of Contractual Restrictions on Copyright Exceptions

The alternative to YODA is to allow the courts to sort out the complex and unresolved issue of the enforceability of contractual terms limiting copyright exceptions. There is little doubt that a restriction contained in a negotiated agreement between parties of equal bargaining strength would be enforceable. But what about a non-negotiated agreement between parties of unequal bargaining position?

contracts.¹⁰ If the contracts are not enforceable, then obviously their terms prohibiting fair use and other user rights have no effect.

To the extent any pattern can be discerned in these cases, courts seem more willing to enforce click-on licenses than browse-wrap or shrink-

contract claim required proof of an extra element -- the existence of an enforceable contract.

However, in *Data General Corp. v. Grumman Systems Support Corp.*,¹² the First

program owners under Section 117 and clearly ‘touches upon an area’ of federal copyright law.”²⁰ Likewise, the Supreme Court relied on the Supremacy Clause to preempt a Florida plug mold statute it found inconsistent with the federal intellectual property system.²¹

On the other hand, the courts in *Bowers v. Baystate Techs., Inc.*²² and *Davidson & Assoc. v. Jung*²³ rejected constitutional preemption arguments with respect to contractual restrictions on copyright exceptions. Judge Dyk, however, wrote a powerful dissent in *Bowers*, stating that a software firm could not eliminate a user’s privileges under the Copyright Act simply “by printing a few words on the outside of its product...”²⁴ Such an approach “permits state law to eviscerate an important federal copyright policy reflected in the fair use defense...”²⁵

C. Copyright Misuse

The courts could also employ the copyright misuse doctrine to address manufacturers’ attempts to use their copyright in the software embedded in products to prevent resale of those products. The misuse doctrine prohibits the enforcement of a copyright for the purpose of preventing legitimate competition—here, by resellers of legitimate products.

The Fourth Circuit in *Lasercomb America v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990), found that the copyright misuse doctrine is premised on the principle that public

²⁰ *Vault*, 847 F.2d at 270.

²¹ *Bonito Boats Inc., v. Thunder Craft Boats Inc.*, 489 U.S. 141 (1989).

²² *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317 (Fed. Cir.), *cert. denied*, 539 U.S. 928 (2003).

²³ 422 F.3d 630 (8th Cir. 2005).

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²⁵ *Id.* at 1335.

policy “forbids the use of the [copyright] limited monopoly to secure an exclusive right or limited monopoly not granted by the [Copyright] Office and which is contrary to the public policy to grant.” In *Lasercomb*, the plaintiff’s standard software license prohibited the licensee from

2015). Because the Supreme Court's *Kirtsaeng* holding provided Costco a complete defense to the Omega's infringement claim, the Ninth Circuit did not reach the district court's misuse holding. It did, however, affirm the award of attorneys' fees to Costco. The Ninth Circuit noted that the district court had observed that Omega had not sought to provide creative works to the general public. Rather, Omega sought to exert control over the distribution of its watches. The Ninth Circuit held that the district court had not erred when it concluded that "it should have been clear to Omega that copyright law neither condoned nor protected its actions, and the imposition of fees would thus further the purpose of the Copyright Act."

Of particular relevance here is Judge Wardlaw's concurring opinion, where she argued that the panel should have affirmed the district court's copyright misuse finding rather than decide the case on the basis of *Kirtsaeng*. Judge Wardlaw agreed with the district court that "Omega impermissibly used the defensive shield of copyright as an offensive sword."

In the closing paragraph of her concurrence, Judge Wardlaw stated that Omega's attempt to expand the scope of its statutory monopoly by misusing its copyright in its logo would upset the balance the copyright law establishes between rewarding creative work and promoting the broad public availability of literature, music, and the other arts. Omega's "anticompetitive acts promoted neither the broad public availability of the arts nor the public welfare." Rather, they were designed to eliminate price competition in the retail market for Omega watches and deprive consumers of the opportunity to purchase discounted gray market Omega watches from Costco.

