

**Comments of the Software and Information
Industry Association**

Docket No. 2020-9

Sovereign Immunity Study

Introduction

SIIA is the principal trade association of the software and information industries and represents over 700 companies that develop and market software and digital content for business, education, consumers, the Internet, and entertainment. SIIA's members range from start-up firms to some of the largest and most recognizable corporations in the world, and one of SIIA's primary missions is to protect their intellectual property and advocate a legal and regulatory environment that benefits the software and digital content industries. SIIA member companies are market leaders in many areas, including but by no means limited to:

- software publishing, graphics, and photo editing tools;
- database and data processing software;
- financial trading and investing services, news, and commodities exchanges;
- online legal information and legal research tools and;
- newsletters, journals and educational technology.

Our members depend on a sound, uniform intellectual property system. As the Office well knows, Congress created such a system through Article I, Section 8, clause 8 of the Constitution, which permits (but does not require) Congress to establish national intellectual property rights. The Founders included that provision for two reasons: first, to unleash innovation by creating capitalistic incentives to invent and create; and second, to create those incentives in a uniform fashion—in the words of the Federalist papers, “The states cannot make effectual provisions for either of the cases [patent

or copyright]”.¹ In other words, the Founders (as well as the Congress) envisioned a free-market system where everyone operated within the same, uniform set of rules.²

The Eleventh Amendment to the U.S. Constitution provides: The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.³ For many years, with respect to both patents and copyrights, that is exactly what happened, and what the courts and Congress assumed.⁴

In the mid-1980s, however, *Atascadero State Hospital v. Scanlon*, held that in order for a state to be sued in federal court, the Eleventh Amendment required that Congress pass a statute abrogating their sovereign immunity in clear and unequivocal language.⁵ When *Atascadero* was decided, however, neither the copyright, patent or trademark statutes contained language expressly addressing state activity. In 1990, and then in 1992, Congress acted to clarify its intent,

¹ The Federalist No. 43 (Madison) (“The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged, in Great Britain, to be a right of common law. ... The public good fully coincides in both cases with the claims of individuals.”).

² E.g., 17 U.S.C. § 106; 504; 35 U.S.C. § 271.

³ U.S. Const. Amd. XI.

⁴ See, e.g., *Mills Music, Inc. v. State of Ariz.*, 591 F.2d 1278, 1285–86 (9th Cir. 1979) (finding that state sovereign immunity limited by the nature of the patent and copyright clause); *Lemelson v. Ampex Corp.*, 372 F. Supp. 708, 712 (N.D. Ill. 1974) (finding that states may be held liable for patent infringement on general supremacy grounds and through a theory of implied waiver); see also *Parden v. Terminal R. of Ala. Docks Dept.*, 377 U.S. 184 (1964) (states may waive immunity through participation in federal statutory scheme), *overruled by Coll. Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666 (1999). See also generally S. Rep. No. 102-280, at 2-6 (1992) (recounting history).

⁵ *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 241 (1985).

adding language to the copyright, trademark, and patent statutes treating the states the same as everyone else—no worse, no better.⁶

After Congress amended the relevant federal intellectual property statutes in the early 1990s, the Supreme Court changed the landscape yet again. In *Seminole Tribe of Florida v. Florida*,⁷ the Court overruled prior precedent⁸ and held that Congress can only abrogate state sovereign immunity when exercising its remedial power under section 5 of the Fourteenth Amendment. After *Seminole Tribe*, states again began asserting claims of immunity against intellectual property infringement. In *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Savings Bank*,⁹ the Supreme Court held that the Patent Remedy Clarification Act represented an unconstitutional infringement on state sovereign immunity because the legislative record did not reveal enough evidence of unconstitutional state action.¹⁰

The Fifth Circuit promptly applied *College Savings* to invalidate the Copyright Remedy Clarification Act.¹¹ In its wake, Congress considered proposals to address the new constitutional rules created by the Supreme Court's

⁶ *E.g.*, The Copyright Remedy Clarification Act, Pub. L. 101-553 (1990); The Patent Remedy Clarification Act, Pub. L. No. 102-560 (1992); The Trademark Remedy Clarification Act, Pub. L. No. 102-542 (1992).

⁷ *Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 72 (1996).

⁸ *E.g.*, *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989) (holding that Congress could make states liable for violations of federal law under Article I of the Constitution).

⁹ 527 U.S. 627 (1999).

¹⁰ *See id.* at 644-45 (stating that state infringement of a patent, while interfering with the right to exclude others, is not in and of itself a constitutional violation).

¹¹ *Chavez v. Arte Publico Press*, 204 F.3d 601, 603 (5th Cir. 2000).

intellectual property sovereign immunity decisions.¹² SIIA supported these measures, which both abrogated state immunity from intellectual property suits across the board, and conditioned full receipt of federal intellectual property on the state’s waiver of its immunity.¹³ These proposals did not advance. In the absence of a waiver of state immunity, since *Chavez* the copyright owner’s rights were essentially limited either to a declaratory suit for prospective declaratory and injunctive relief against a state official in their official capacity.¹⁴ The Court’s recent decision in *Allen* has effectively made *Chavez* the law of the land.

The Court’s recent decision to invalidate the CRCA had two main pillars. The first involved rejection of the petitioner’s theory that, like the Bankruptcy Clause, the Copyright Clause provided an independent basis to abrogate sovereign immunity.¹⁵ Writing for the majority, Justice Kagan rejected that contention, finding that *Florida Prepaid* precluded that argument, and that cases holding differently were a result of “bankruptcy exceptionalism.”¹⁶

The second involved its examination of the record supporting the CRCA’s enactment pursuant to the only remaining valid congressional power: section 5 of the Fourteenth Amendment.¹⁷ After finding that copyrights were property subject to Fourteenth Amendment protection, it applied the “means-end test” used to evaluate the constitutionality of remedial legislation.¹⁸ They found that Congress had not identified a record of “non-negligent infringement” sufficient to justify making states liable for

¹² S. 1611 (2001); H.R. 3204 (2001).

¹³ *See, e.g.*, S. 1191, 108th Cong. (2003).

¹⁴ *Ex parte* Young, 209 U.S. 123 (1908).

¹⁵ *Allen v. Cooper*, 140 S. Ct. 994, 1001 (2020).

¹⁶ *Id.* at 1002.

¹⁷ *Id.* at 1004.

¹⁸ *Id.* (citing *City of Boerne v. Flores*, 521 U.S. 507, 520 (1997)).

infringement on the same terms as private parties.¹⁹ Instead, infringement must be intentional, and at least reckless, to come within the reach of the due process clause.²⁰ Pointing specifically to the record in *Florida Prepaid*, the Court criticized the statute for failing to limit its scope to “non-negligent infringement or infringement authorized by state policy.”²¹ The Court found that the record of infringement amassed by Congress was insufficient to sustain exercise of section 5 to give access to the full panoply of remedies that the CRCA contained.²²

SIIA’s members have long been concerned about the inequity of states playing by two sets of rules and they are greatly concerned about the inequities created by the *Allen v. Cooper* decision. On the one hand, states are able to exploit the full range of remedies as an owner of intellectual property, as the states have to the tune of hundreds of millions of dollars.²³ For example, the University of Michigan received over \$88 million in media licensing fees in 2019 from its athletic programs.²⁴ The University of Minnesota earned approximately \$47 million from exploitation of radio, television, internet and digital e-commerce rights.²⁵ At the same time, both of these institutions can claim immunity from damages when it infringes the intellectual property of others,

¹⁹ *Allen*, 140 S. Ct. at 1003.

²⁰ *Id.* at 1004.

²¹ *Id.*

²² *See id.* at 1007.

²³ Don Reisinger, Fortune, *Apple Ordered to Pay More than \$500 Million in Latest Patent Spat* (July 26, 2017), available at <http://fortune.com/2017/07/26/apple-wisconsin-patent-lawsuit/>.

²⁴ Orion Sang, [Why Michigan’s athletic department was third highest spender in 2018-19](#), Detroit Free Press (July 16, 2020)

²⁵ University of Minnesota NCAA Report, <https://s3.amazonaws.com/gophersports.com/documents/2020/1/21/NCAA Online Report Submitted 1 14 20 FINAL.pdf>, at 4 (FY2020).

whether patent, copyright or trademark.²⁶ The situation is particularly egregious when a state acts as a commercial player in the market. In both *Florida Prepaid* and *Chavez*, the state activities involved were traditional manifestations of state activity or even incidental. Both were independent legal entities (indeed corporations) that sold services (pre-paid) and products (Univ of Houston press) to the public. That certain groups are opposing removal of the immunity is particularly striking as the immunity is procedural, and not substantive. It prevents the state from being forced to appear in federal court: it does not shield or in any way affect the desirability of the underlying conduct.

We therefore agree with the initial comments of the Copyright Alliance and others who have stated that the copyright law must (again) be amended to address the unfairness that the Supreme Court's shifting sovereign immunity jurisprudence has created. We write primarily to respond to the statements by some of the initial commenters suggesting that copyright owners should not (or under law cannot) be compensated for the illegal use of their works by state entities. Our views are informed by decades of SIIA and its members' attempts to enforce their intellectual property rights in a variety of contexts.

SIIA's Membership Experience

Just as they do for the private sector, SIIA members offer numerous products that help state entities perform their functions. In many cases, those products are well-known versions of off-the-shelf operating systems, word processors, and spreadsheet programs. Others, however, may involve expensive and complex implementations of bespoke tax and accounting software and law enforcement databases. Still

²⁶ *E.g.*, *Studstill El v. Michigan Dep't of State*, 691 F. App'x 820, 822 (6th Cir. 2017) ("Michigan has not consented to the filing of civil rights suits against it in federal court"); *Hoeffner v. Univ. of Minnesota*, 948 F. Supp. 1380, 1391 (D. Minn. 1996) ("the University continues to be, in all respects, an arm of the State of Minnesota for purposes of the Eleventh Amendment, and the immunity that Amendment affords.").

other agreements involve licenses of huge databases of scientific, technical and medical journals, permitting state university consortia to access centuries' worth of knowledge from individual student and faculty computer terminals.

Since it began as the Software Publishers' Association, SIIA has protected the rights of its members against infringement. Copyright infringement is a difficult wrong to detect, and even now we depend heavily on whistleblowers to find out about illegal activity. SIIA keeps the identities of these whistleblowers confidential. Once we confer with the whistleblower and investigate the claims of infringing activity, we send cease-and-desist letters and take other actions to put the putative defendant on notice that its conduct is infringing. In the private sector context, such litigation quickly settles with no public record of it ever appearing—the defendant pays for the software that it has used, and licenses going forward. Confidentiality clauses typically prevent any discussion of the terms, or even the existence of any disagreement. Thus, it is our view that the amount of infringement and scale is far less than would show up in reported cases or news reports.

If the state entity is unaware of its immunity, it is generally willing to engage in dialogue. Once it learns of it, however, the pattern is always the same: it asserts its immunity and stonewalls.²⁷

When a defendant refuses to comply with a cease and desist request, there is little basis for asserting that only negligence is involved.²⁸ Thus, while there may be situations in which fair use or another defense presents a close question, in our experience that does not apply in the software context.

As we did when we testified on this issue in 2002, our members believe that the scale of state infringement is far greater than commenters would have the Office believe. By

²⁷ See Hearing on the Intellectual Property Protection Restoration Act of 2003, House Comm. on the Judiciary, Subcomm. on Courts and Intellectual Property, at 49-54 (June 17, 2003); Senate Hearing, at 91-92 (letter from Ken Wasch).

²⁸ See, e.g., *Wall Data v. Los Angeles County Sheriff's Dept.*, 447 F.3d 769 (9th Cir. 2006).

then, we had found 77 instances of state infringement. Due to the age of the database, we have not been able to retrieve data from the years between 2002 and 2011. Between 2011 and September 2020, however, we received 86 reports of infringement by state government entities, including universities, school districts, police departments, and administrative agencies. This represented about one in twenty reported cases from what we defined as the relevant data set.²⁹ As part of each report, we ask our sources to tell us the number of computers involved, which ranged from as low as five and as high as 30,000 – totaling thousands of potential acts of infringement of member software. As a general rule, these works contained both licenses advising users of the scope of copyright protection as well as a properly affixed copyright notice.

The above reports involved software licensed in individual copies. As time has progressed however, software is increasingly provided through the cloud—sometimes granting access to an off-the-shelf product, and, in other cases through carefully constructed agreements, and still others are a combination of the two. The parties discuss not only use terms, security, and desired functionality of the product but also testing, de-bugging, training, and ongoing support. In addition, state government implementation of amici members’ software and databases requires additional customization to comply with state and federal privacy requirements. We wish to make two points about these agreements.

First, although states may waive immunity through sufficiently precise contract language, such waivers are nowhere near uniform (if, indeed, parties know to ask for them). When they do exist, our experience is that the states will try to get out of them—for example, by creating a corporation that waives immunity, dissolving it, and passing

²⁹ The term “report” refers to documents reporting copyright infringement that came in through SIIA’s piracy reporting portal. We excluded reports that were (a) about piracy occurring outside the U.S.; (b) reports alleging infringement by the Federal Government or its instrumentalities; or (c) spam.

along its liabilities to an immune corporation.³⁰ Ad-hoc waiver is not a substitute for a federal statute that creates a level playing field.

Second, the exposure of SIIA's members is increasing. More specifically, SIIA's educational members are particularly concerned as demand for remote learning tools is skyrocketing, and not likely to increase in the coming months and years. For SIIA's members, the world has evolved considerably since the CRCA's enactment. Consider, for example, educational technology, which at that time revolved around the textbook, which takes an enormous amount of work to create. All told, the publishing cycle—from the author's conception of an idea for a new textbook to the time that the text reaches bookshelves—generally takes two to four years.³¹ During this time, a textbook author must complete a wide range of tasks. There is, of course, the actual writing of the text, requiring both extensive knowledge and research. Authors of text materials must be able to transform expert knowledge and field-specific jargon into accessible and understandable formats. Further, many authors also will have a role in, for example, compiling appendices, references, and bibliographies; producing figures and tables; obtaining necessary permissions for the use of photographs, artwork, quotations, and other illustrative materials; providing feedback as to the book's design; and proofing the text at various stages.³² As an academic field develops, that textbook will require revision and updating. As just one example, the Text and Academic Authors Association found that the effort to update one textbook from the sixth to

³⁰ See *Oracle Am., Inc. v. Oregon Health Ins. Exch. Corp.*, 145 F. Supp. 3d 1018, 1039 (D. Or. 2015). See also generally *Kroll v. Bd. of Trustees of Univ. of Illinois*, 934 F.2d 904, 906 (7th Cir. 1991) (describing how the legislature merged a non-immune entity into an immune one to avoid employment suit against the state).

³¹ Mary Ellen Lpionka, *Writing and Developing Your College Textbook* 43 (2d ed. 2008).

³² See generally *id.* at 29-42 (explaining the publication process); William Germano, *Getting It Published: A Guide for Scholars and Anyone Else Serious About Serious Books* 139-54 (2d ed. 2008) (advising authors on the process of obtaining necessary permissions to use others' work in a textbook).

seventh edition required over 8,000 hours of work by the authors and contributors—and over ten person-years altogether (when accounting for development, editing, artistic production, and other necessary tasks).³³

When the CRCA was enacted, an educational content producer would be generally focused on one thing: protecting the IP in its textbook. Today, that investment has expanded to include investments in back end servers, artificial intelligence that adapts learning to the ability of a student, and the creation of entire learning platforms on which this content can be analyzed, discussed, taught, tested, and commented on. When SIIA members implement these kinds of solutions for their state customers, as one of our education members did for Nebraska, the harm from infringement is not limited to the sort for which an injunction is an adequate remedy. For example, one of our members is suing the state of Nebraska for infringing a software product that it had licensed for hundreds of thousands of dollars per year and replacing it with an infringing knockoff.³⁴ The plaintiff has requested \$15 million in damages. Similarly, a dispute between Oracle and Oregon had alleged damages in the millions.³⁵

The theft of this property—even on a one-off basis—can cause massive financial harm that an injunction simply cannot and does not redress. The purpose of the Copyright Act is to allow authors to earn a living from the creation of their works:

³³ Text and Academic Authors Association, TAA Debunks the Top 7 Myths Regarding Textbook Costs, available at <https://blog.taaonline.net/2011/07/taa-debunks-the-top-7-myths-regarding-textbook-costs/>.

³⁴ E Scholar LLC v Nebraska Department of Education, No. 8:20-cv-00135-J, Second Amended Compl. at 17-19 (D. Neb. Filed 4/21/20) [Doc. 16].

³⁵ Oracle, America, Inc. v. Oregon Health Ins. Corp., No. 3:14-cv-01279 (D. Or. 2014), First Amended Compl. [Doc. 33], 2014 WL 4685340 .

to allow state infringers to walk away from non-negligent conduct undercuts its first principles.

We thank the Copyright Office for the opportunity to comment in this study and look forward to commenting further as it unfolds.

Respectfully submitted.

/s/

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