

## Issue 4

15 August 2017

P. 97–128

A Journal  
of Information Law  
and Technology

### Articles

*Molly Suda/Ben Tejblum/Andrew Francisco* – Chain Reactions: Legislative and Regulatory Initiatives Related to Blockchain in the United States 97

*Holger Lutz/Sebastian Schwiddessen* – The New German Hate Speech Law – Introduction and Frequently Asked Questions 103

*Charles H. Kennedy* – Uber's iPhone Tagging Caper 111

*Ken Moon* – Revisiting *UsedSoft v. Oracle*: Is Software Property and Can It Be Sold? 113

### Case Law

UK: Classification of Software as Goods – Comment by *Clark* 119

CJEU: EU-wide Reach of Telephone Subscriber's Consent to Publication of His Data – *Tele2 (Netherlands) BV et al. v. Autoriteit Consument en Markt (ACM)* 123

### Updates

*Diego Fernández* – Argentina: Data Localization Bill 127

**ottoschmidt**

[www.cr-international.com](http://www.cr-international.com)

## Revisiting UsedSoft v. Oracle: Is Software Property and Can It Be Sold?

practice caused substantial injury to consumers that outweighs any consumer benefit and could not have been reasonably avoided by the consumer.<sup>20</sup> This is an intentionally hard standard to satisfy, and if Uber can show that its iPhone tracking technology was used to prevent fraud and not to track its customers, the consumer injury requirement is unlikely to be met. However, as with pos-

sible deception findings, the FTC may choose to investigate other conduct by Uber for evidence of unfairness.

### III. Conclusion

On balance, it is fair to say that the Consumer Watchdog complaint, while not necessarily compelling in itself, could initiate a process that takes unexpected turns and discloses additional legal problems for Uber.

<sup>20</sup> 15 U.S.C. § 45(n).

Ken Moon

## Revisiting UsedSoft v. Oracle: Is Software Property and Can It Be Sold?

### The concept of software licensing and its global acceptance explained

*This article questions the CJEU's reasoning in UsedSoft (C-128/11) that Oracle's distribution right had been exhausted when the first acquirer of a copy of Oracle's software had downloaded it. This criticism is primarily directed to the CJEU's finding that Oracle's software licence was a sales contract. It is argued that the CJEU's definition of a sale for the purposes of European law was wrong to include transfer of ownership in intangible property such as computer programs. This was in contradiction both to the law in most European states and to the then Proposed Common European Sales Law. This state of affairs may have been avoided if the Software Directive 2009/24 had been amended to include the new 'internet age' right of communication established by the WIPO Copyright Treaty 1996 which applied to downloads. After a brief introduction (I.), the article first explores the historical background to software licenses (II.) and examines the relationship between downloading and the rights of distribution/communication (III.). After a brief reminder on the nature of software (IV.), the crucial question of exhaustion by first sale is discussed (V.) which leads to the conclusion that under the current global legal frameworks software cannot be sold (VI.).*

ching Oracle's distribution right.

#### 1. Oracle's Licensing Practice Before the Courts

Oracle's client-server database management software was supplied to corporate licensees, who in 85 % of cases elected to receive the software by an internet download rather than on a CD. To use the software the downloader had to agree to the terms of Oracle's licence and pay a licence fee. Oracle licensed its software for a minimum of 25 users. For greater numbers of users businesses had to pay fees for each additional 25 user block.

The case had been referred to the CJEU from the German Federal Court of Justice on, among other questions, whether the right to distribute a copy of a computer program is exhausted in accordance with Article 4(2) of Software Directive 2009/24 when the acquirer has made a copy with the rightholder's consent by downloading the program from the internet onto a data carrier.

The decision and reasoning of the CJEU raise many legal issues and have proved controversial, with many authors not only concerned with its impact on European copyright law<sup>3</sup>, but also contract law<sup>4</sup> and property law.<sup>5</sup> After all the CJEU had held that the licence had been sold (notwithstanding a term of the licence prohibiting assignment) and not just the software itself.

#### 2. Focus on "Sale" of Software

However, this article primarily will focus on the CJEU's decision that Oracle's licence was a sale<sup>6</sup>, the precondition for triggering the exhaustion provision in the Software Directive.

### I. Introduction

The 2012 decision of the Court of Justice of the European Union (CJEU) in *UsedSoft v Oracle*<sup>1</sup> held that Oracle's software licence (for online supply of multi-user business software) constituted a contract of sale and thus Oracle's exclusive distribution right, under its copyright in the software, had been exhausted by the 'sale' to the licensee and first user<sup>2</sup>. Therefore *UsedSoft*, a dealer in second hand software, could acquire and onsell Oracle's software and associated licences, from the original licensees, and sell both to another party without brea-

▷ Ken Moon, Auckland. Further information about the author at p. 128.

<sup>1</sup> C-128/11, CRi 2012, p 116.

<sup>2</sup> A decision foreshadowed by Advocate-General *Bott* in his Opinion. However, unlike the Court, A-G *Bott* decided that the exhaustion of the distribution right did not allow the second acquirer of the software to reproduce the software by creating a new copy when downloading even if the first acquirer had erased its copy.

<sup>3</sup> *Vinje/Marsland/Gartner*, 'Software Licensing after Oracle v UsedSoft', *Computer Law Review International* 4/2012, 97.

<sup>4</sup> *Lindskoug*, 'The Legal Position of Sellers and Buyers of Used Licences', [2014] *EIPR* 289.

<sup>5</sup> *van Engelen*, 'UsedSoft v Oracle: the ECJ quietly reveals a new European property right in 'bits and bytes'', *European Property Law Journal*, 2012, vol 1, issue 2, p 317.

<sup>6</sup> That is, a transfer of ownership of property. The related and equally interesting legal question of whether software is 'goods' is coincidentally addressed in *Robert Clark's* summary and comment of the English High Court's *The Software Incubator Ltd v. Computer Association Ltd* case entitled 'UK: Classification of Software as Goods' in this issue at p. 119.

## Revisiting *UsedSoft v. Oracle*: Is Software Property and Can It Be Sold?

In some respects the views purported in this article represent a common law perspective, but it is submitted that this is not entirely inappropriate in view of the fact that the EU includes (still) two common law jurisdictions and that historically the supply of computer programs independently of the computers on which they would run originated in the United States and therefore the supply agreements were based on common law property rules. Further, the law concerning the supply and delivery of software electronically online is a significant international legal and business issue and not simply a regional one.

### 3. Subsequent CJEU Case Law

It must be mentioned that subsequent CJEU cases appear to have tightened the scope of the *UsedSoft* decision. For example, so far as software is concerned the CJEU decided in *Microsoft (C-166/15)* (2016) that Article 5(2) of the Software Directive which allowed reproduction to produce a backup copy, restricted the use of that copy to the first acquirer of the software and did not allow the backup copy to be sold despite the distribution right of the copy initially in the hands of the first acquirer being exhausted.

So far as digital content in the form of video games is concerned the CJEU in *Nintendo v PC Box (C-355/12)* (2014) confirmed that ‘the protection offered by [the Software Directive] is limited to computer programs.’ In that case while the video games included computer programs along with graphics and sound they did not constitute the substance of the work in question. Therefore the applicable Directive was the 2001 InfoSoc Directive.

Although not a case concerning online delivery of digital content, in *Art & Allposters (2015)*<sup>7</sup> the CJEU confirmed that exhaustion of the distribution right under Art 4(2) of the InfoSoc Directive 2001 is limited to tangible goods.

## II. Historical Background to Software Licences

The licence contract for the supply of computer software has been used universally and internationally as the supply transaction for software ever since the IBM ‘Program Products Licence Agreement’ was first used in 1967. Computer programs were supplied prior to that time already loaded on computers and the allocated price was included in the lease or sale price of the *hardware* until IBM ‘unbundled’ its software from its hardware in 1967.

### 1. Weak Origins of Copyright Protection

The appropriate legal contract to use for the supply of unbundled software was at that time problematical. The product was intangible<sup>8</sup> and that itself militated against the idea of a *sale of goods*. In the US, as in other common law countries, ‘goods’ were tangible chattels. IBM was concerned about protecting its effort and cost in developing and writing software, but whether there were any useful intellectual property rights available in the 1960s was not clear<sup>9</sup>. Some doubted that software constituted

a copyright work, others thought copyright by itself would provide only weak protection anyway. That copyright would subsist in programs did not become conclusive in the US until the Computer Software Copyright Act 1980 amended the Copyright Act 1976 to specifically provide copyright protection for computer programs<sup>10</sup>.

Even if copyright protection was available, a book distribution analogy was not considered adequate for computer programs. This was because books were not functional and programs very definitely were. The only purpose of programs, being instructions for a machine, was to be “used” on a computer by those who acquired the programs. Copyright owners in the common law world have never had an exclusive right to *use* their works which they could licence out to third parties. Whether ‘use’ of a program amounted to reproduction was still a legal conundrum.

Hence the law of contract was selected by IBM to govern what users of software could do in addition to any protection which might be provided by copyright.

### 2. Additional Protection by Contract Law

But as a common law jurisdiction US law traditionally recognised only two types of supply contracts – a sale of goods contract or a contract for services. Even before delivery of software online became common it was recognised by many that software itself was intangible and even when it was supplied stored on a physical medium it was not itself goods. Taking that view would be confusing the message with the media. Clearly mass produced software could not be considered a service. Thus an ancient common law contract type first used in relation to land was adapted for the supply of software, namely, the licence. Not surprising, as licence contracts had already been adopted for commercialising industrial and intellectual property rights from at least since the late 1700s<sup>11</sup>.

#### a) Inadequacy of Sales Contract

As well as the desire to control copying of any aspects of the software there was also the desire to maximise economic return. The latter consideration suggested not only the need to include contractual clauses to regulate use of the software<sup>12</sup>, but also to prohibit subsequent transfers by the customer who originally acquired the software. However, this was another reason why a sale

<sup>7</sup> C-419/13.

<sup>8</sup> See analysis in section IV below on the intangibility of software.

<sup>9</sup> As to trade secret protection, there were doubts that could apply when the same software product was supplied to many customers, albeit in object code form. As to patents, a computer program was also considered by many to be no more than a mathematical algorithm and on that basis was thought not to be patentable even if new and constituting an inventive step.

<sup>10</sup> And somewhat later in other countries such as Germany, where despite a 1985 Act, the Federal Court of Justice required such a high level of originality for copyright to subsist in software that one writer concluded “The BGH may, for all practical purposes, simply have sabotaged the Copyright Revision Act”: *Schroeder*, [1986] 3 EIPR 88, 90. This situation remained until Germany had to amend its law to comply with the 1991 EU Software Directive.

<sup>11</sup> This reference is made to the licences granted by authors as copyright owners and not to the older concept of Crown licensing of publishers.

<sup>12</sup> This is a rationale provided by *Trevor Cox*, “Chaos vs. uniformity: the divergent views of software in the International Community” [2000] *Business Law International* 359; <http://www.cisg.law.pace.edu/cisg/biblio/cox.html>; a presentation at the April 2000 seminar on the CISG, Vienna.

## Revisiting *UsedSoft v. Oracle*: Is Software Property and Can It Be Sold?

contract, could not be employed. At common law, use and transfer conditions in a sale contract are termed *servitudes*<sup>13</sup> and for sales contracts for personal property movables they are void<sup>13</sup>, especially those which purport to prohibit alienation, unlike the situation with *servitudes* over real property<sup>14</sup>.

### b) Contractual License Model

IBM thus came up with the idea of a contractual licence<sup>15</sup> where the user was licensed for fees to possess and use the software for a term of years but no title would pass or any proprietary interest vest in the user. The licence, as well as containing a restrictive grant term, included many types of terms governing type of use, machine to be used upon, non-assignability, termination provisions and so on. At that time and up into the 1980s nearly all software licences were limited by term and renewable upon payment of periodic fees.

Once it became clear that useful copyright could subsist in computer programs, the 'Program Products License' became also a licence permitting users to reproduce the programs as was required for their execution by a computer and for the making of a backup copy.

The licence remained the international transaction model for supply of software even after one-time fees began to be charged (instead of periodic renewal fees) for many types of software. Possibly a lease transaction could have been adopted instead of the licence, but despite uncertainties it was reasonable to think there must be some intellectual property rights attached and that these may need licensing to end users. Once it was clear that copyright subsisted in software there definitely needed to be a copyright licence to authorise reproduction by loading and running the software, because both acts involve making reproductions of the software whether permanent or temporary.

### c) Confusing Software with Content

For some reason certain jurisdictions, such as the European Union, later took the view that a lawful acquirer of software should not need a copyright licence from the rightholder and created a statutory exception from copyright infringement for the acts of loading and running<sup>16</sup>. Bearing in mind that software was traditionally supplied under a licence contract the rationale for providing a statutory exception to the reproduction right is not readily apparent.

The link between software and licences is a completely different phenomenon from the more recent use of the licence model for the supply of content (such as books, sound recordings and films). Such content has always been supplied on physical media (without an associated licence) first in analogue form and then later in digitised form and it is only when digitised content (eBooks etc) is supplied online that a licence is used. Arguments that the law ought to treat all modes of distributing content equally do not apply in the case of software. Software by its very nature has been digital since its inception and thus intangible. It has always been supplied in digital format. Content has not, and could not be, until techniques for digitising analogue content became a commercial reality.

## III. Downloading and the Rights of Distribution and Communication

The particular concern of the German Federal Court in question 2 of its referral to the CJEU was the legal significance of Oracle making its software available electronically for download over the internet instead of on a disk. Was this a distribution which could be exhausted?

### 1. The CJEU Focus on Software Directive

The CJEU recognised that obtaining software by an internet download was a communication from Oracle followed by a reproduction made by the licensee or first acquirer. But the CJEU decided that because the copyright work was computer software, then according to the doctrine of *lex specialis* the applicable law was the Software Directive 2009 and not the InfoSoc Directive 2001. Therefore to answer the second and most significant question referred by the German Federal Court of Justice, namely whether Oracle's exclusive rights to control transfer of its software were exhausted by the first acquirer of the software taking delivery of that software by a download from the internet, the CJEU focussed its consideration on the only transfer provisions expressly provided in the Software Directive. These were the exclusive right to *distribute* to the public provided by Article 4(1)(c) and the provision for exhausting that right in Article 4(2).

### 2. Incompatibility Between Software Directive and WCT

The Software Directive, while originating in 1991, was 'codified' in 2009, long after the EU purported to ratify the WIPO Copyright Treaty 1996, but still did not confer on software copyright owners the exclusive right to *communicate* their software to the public 'by wire or wireless means in such a way that members of the public may access these works from a place and at a time individually chosen by them': Article 8 of the WCT. This right was in addition to and separately from the right of distribution which was conferred by Article 6 WCT. Furthermore, the WCT by Article 4 expressly deemed computer programs to be literary works and thus was intended to apply to computer programs. Unlike the right of distribution, the WCT made no provision for exhaustion of the right of communication. Further, the WCT Agreed Statements relating to Article 6 state that 'copies' refer exclusively to fixed copies that can be put into circulation as tangible objects.

13 As recorded as long ago as 1628 by the English jurist *Edward Coke* in his *Institutes of the Laws of England* at p.223.

14 See *Robinson*, 'Personal property Servitudes', University of Virginia School of Law, 2003 Law and Economics Research Papers, <http://ssrn.com/abstract=477541> and specifically in relation to 'intellectual property embedded goods' see *Mulligan*, 'The Cost of Personal Property Servitudes: Lessons for the Internet of Things' <http://ssrn.com/abstract=2465651>.

15 Which it called a 'Program Products License Agreement'. This derivation was explained by *Roy N Freed*, 'The Birth, Life and Death of Computer Law', in Vol II of Papers presented at the Computer Law Association 20<sup>th</sup> Anniversary Program Conference, Washington, April 22-23, 1991.

16 Namely Article 5(1) of the European Union Computer Program Directive 91/250; the Australian Copyright Amendment (Computer Programs) Act 1999, Section 47B. Even the US Copyright Act, s.117(a) provides an exemption from infringement for 'owners' of a copy of software, but not 'rightful possessors' as was originally proposed.

## Revisiting *UsedSoft v. Oracle*: Is Software Property and Can It Be Sold?

### 3. WCT Compliance

Applying the WCT to the *UsedSoft* facts where the Oracle software was delivered by a download, the software was communicated to the first acquirer and not distributed to him. Therefore under the WCT neither of Oracle's rights to distribute or communicate would be exhausted. The Advocate-General in his Opinion sought to sidestep the implication of this by claiming that 'the existence of a transfer of ownership clearly changes a mere act of communication to the public into an act of distribution.'<sup>17</sup> This rationale was accepted and applied by the CJEU.<sup>18</sup> But this overlooked the history behind the text used in Article 8 of the WCT. Even if there was a transfer of ownership, which is refuted in section V below, the new WCT right of communication was developed by the international teams convened by WIPO, 'irrespective of what kind of interactive use (streaming or downloading) is made possible'<sup>19</sup>. In any event streaming of works had not, back in 1996, achieved commercial significance.

### 4. Resulting EU Breach of WCT

The result of interpreting Articles 4(1) and 4(2) of the Software Directive literally was that the CJEU effectively revealed that the EU was in breach of the WCT because it had only implemented that Treaty for works other than computer programs. It would have been more diplomatic for the CJEU to have interpreted the Software Directive using the WCT. The CJEU had in previous cases, starting with *Peek & Cloppenburg* [2008] ECR I-2731 said that Directives should be interpreted in harmony with the international treaties they were intended to implement, but in *UsedSoft*, while the CJEU expressly adopted this mode of interpretation to restrict the ambit of the InfoSoc Directive 2001<sup>20</sup>, it neglected to apply it when interpreting the Software Directive 2009.

## IV. The Nature of Software

Before addressing the CJEU's finding that Oracle's licence was a sale it is necessary to further consider the legal nature of computer programs. While under international and national copyright law copyright is conferred on a 'computer program' it must be remembered that most commercial applications comprise a suite of many interrelated programs – 'software'<sup>21</sup>.

### 1. Set of Instructions

A computer program is a set of instructions to be acted upon by a computer – 'hardware'. Computers can only read and follow binary code – and then only when that is provided to them in machine-readable form. With early computers and later with the first microprocessors,

human programmers had to write programs in binary code. Later and as is usual today, programmers write programs in a higher level language<sup>22</sup>, a symbolic mathematical language which is more easily read by humans and such high level language programs must be converted to binary or 'machine code' using a compiler program.

Whether human-readable or machine-readable, a program is still a set of instructions to be executed by a computer. Despite being instructions for a computer, programs are the expressions or intellectual creations of a human author in the same way as is a traditional literary work. It is hardly surprising that computer programs were given copyright protection by deeming them to be literary works. Expressions and intellectual creations are not tangible objects.

### 2. Intangibility

Instructions, whether for computers or humans constitute *information*. Information is intangible and not goods. Computer programs are intangible – that is why they are called *software*. Programs, even up to several lines in length, can be memorised and carried in a programmer's or computer operator's memory. In the early days of computing it was necessary to manually key in the 'boot' program every time the mainframe or mini-computer had to be started. For some computers it was necessary to manually enter the boot program in binary code. Many computer operators memorised the boot program and would enter it from memory instead of by reading off a printed card.

Apart from the world of science fiction it is not possible to carry tangible objects in the brain to be 'delivered' anywhere let alone to a machine. Similarly, real science does not view electromagnetic waves as being tangible, whether transmitting information or not. Uploads and downloads via the Internet, whether of software or data is by electromagnetic transmission. The software is transmitted as intangible digital files. No physical media is involved as is the case when software is supplied on a disk or a memory stick. Even in those latter situations a legal fiction has been created to categorise software so delivered as tangible goods. This is really no more the case than a book. A book is something which stores the literary work, not the work itself. Computer programs themselves cannot be touched or weighed – they weigh nothing. The weightless, intangible computer programs have simply been loaded onto a storage disk for transport and delivery. The only tangible is the disk. Calling stored programs tangible is scientifically and legally 'confusing the message for the medium'<sup>23</sup>.

## V. Exhaustion by First Sale

Putting aside the issues of how international copyright treaties should influence the interpretation of EU copyright law, the main focus of this article concerns the primary requirement that must be satisfied before the copyright owner's distribution right can be exhausted,

<sup>17</sup> Paragraph 73 of the Opinion.

<sup>18</sup> Paragraph 52 of the Judgment.

<sup>19</sup> See 'answer to question 3' in Ficsor's expert opinion of 6 March 2013 prepared for the Society of Composers, Authors and Music Publishers of Canada (SOCAN). Dr Mihaly Ficsor was Assistant Director-General of WIPO and played a significant role in developing the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. See also Ficsor, *The Law of Copyright and the Internet*, Oxford University Press, 2002.

<sup>20</sup> Paragraph 52 of the Judgment where *Peek & Cloppenburg* was cited.

<sup>21</sup> Unfortunately it is not quite as clear as this as 'software' is often used to include the preparatory design for the suite of programs, such as: specifications, 'architecture' and algorithms.

<sup>22</sup> Such as COBOL, Fortran, BASIC, Virtual BASIC, C, C++, Java.

<sup>23</sup> As discussed by, for example, the New Zealand High Court in *Erris Promotions Ltd v Commissioner of Inland Revenue* [2004] 1 NZLR 811 at 824 and *Thomas Dreier* 'in Howe and Griffiths (eds), *Concepts of Property in Intellectual Property Law* (2013, Cambridge University Press), 119.

## Revisiting *UsedSoft v. Oracle*: Is Software Property and Can It Be Sold?

namely ‘first sale’. The problem for the CJEU in this case was that Oracle’s supply contract was entitled and structured as a licence – a software licence – not a sale.

### 1. The CJEU’s Approach

In paragraph 38 of its judgment the CJEU said that “it must be ascertained, first, whether the contractual relationship between the rightholder and its customer, within which downloading of a copy of the program in question has taken place, may be regarded as a ‘first sale ... of a copy of a program’ within the meaning of Article 4(2) of Directive 2009/24”.

In paragraph 40 the CJEU said that the term ‘sale’ “must be regarded ... as designating an autonomous concept of European Union law, which must be interpreted in a uniform manner throughout the territory of the European Union”.

Without citing any such EU law (there is none) the CJEU in paragraph 42 puts forward what it called ‘a commonly accepted definition’ of a ‘sale’ as being ‘an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him’.

No legal arguments were put forward to support this proposition. This was somewhat surprising because whether intangibles constituted property was a long unresolved issue in some, if not all, member states<sup>24</sup>. The CJEU failed to recognise this. The CJEU’s somewhat simplistic definition of ‘sale’ could only apply in this case if the subject matter of Oracle’s licence constituted property. If not, there could be no sale irrespective of how the content of Oracle’s licence agreement was construed.

However the CJEU simply moved on and stated that ‘the operations mentioned in paragraph 44<sup>25</sup> above, examined as a whole, involve a transfer of the right of ownership of the copy of the computer program in question’ and concluded that ‘the transfer by the copyright holder to a customer of a copy of a computer program, accompanied by the conclusion between the same parties of a user licence agreement, constitutes a ‘first sale ... of a copy of a program’ within the meaning of Article 4(2) of Directive 2009/24’<sup>26</sup>.

### 2. Can Intangible Products be Sold? Are Intangible Products Property?

A sales contract is a contract by which the seller transfers (or agrees to transfer) the property he owns in a thing to the buyer in exchange for the buyer paying money (the price) to the seller<sup>27</sup>.

This is a relatively simple and clear definition when the ‘thing’ (or chose) is a tangible thing, that is, ‘goods’. It is unquestionable that property will subsist in goods. However, a jurisprudential problem arises if the ‘thing’ is intangible (incorporeal). In common law jurisdictions, apart from legal rights, intangibles such as electricity historically are not goods and not property. If no property subsists in such intangibles, then by definition they cannot be the subject of a sales contract, unless perhaps it is a sale of services contract.

This legal situation is not dissimilar in civil law countries in the absence of specific legislation<sup>28</sup> that may have been implemented after the relevant Civil Code. For example, the German *BGB* only recognises property (*Eigentum*) in corporeal things.

But there are no statutes in civil law or common law states in the EU, nor court decisions, which declare that intangible computer programs are property. Nor did the CJEU make such a declaration as such in *UsedSoft*, but a statement that software can be sold carries with it an implicit acceptance that software is property (or at least deserves to be treated like property). The CJEU overlooked or by-passed without comment this fundamental jurisprudential question. Among other things this also meant that the possible distinction in terms of property status between the source code (retained in a state of secrecy by Oracle) and copies of the object code made available to licensees was not addressed.

### 3. Legal Interpretation of the Oracle Licence Agreement

The CJEU then proceeded to interpret the text of the Oracle licence agreement. In reviewing the terms of Oracle’s licence agreement the CJEU focussed on two terms only<sup>29</sup>. Namely the period for which the licence was granted and the licence fee. It noted that the licence period was ‘unlimited’ or ‘permanent’ (the licence used the word ‘perpetual’<sup>30</sup>) and the fee was a single payment. The CJEU concluded that these factors coupled with delivery of a copy of the Oracle program (by download) ‘involve the transfer of the right of ownership of the copy of the computer program in question.’<sup>31</sup>

The CJEU dismissed the fact that the title of the agreement used the word ‘licence’ adopting the Advocate-General’s statement in his Opinion that suppliers would merely call the supply agreement a ‘licence’ rather than a ‘sale’ in order to circumvent the rule of exhaustion<sup>32</sup>. This cautionary statement would have been quite logical if the rest of the terms of the agreement were those typically used in a sale of goods agreement, but they were not. They were typical of a licence agreement<sup>33</sup>. The CJEU did not take into account any other terms of the licence in determining its contractual category<sup>34</sup>.

24 For example, the German Civil Code does not recognize *Eigentum* in intangible movables, see *Dreier*, note 22; nor does the Dutch Civil Code, see van Englen, ‘UsedSoft v Oracle: the ECJ quietly reveals a new European property right in bits and bytes’, *European Property Law Journal*, 2012, vol 1, issue 2, p 317. Even in the UK, where intangible legal rights may be property, no UK court has yet declared computer programs to be property.

25 Where the Court said ‘the downloading of a copy of a computer program and the conclusion of a user licence agreement for that copy form an indivisible whole.’

26 Which is presumably what a German court would have decided under its Civil Code if there had been a dispute over the licence between Oracle and the first acquirer. That is, the licence being an innominate contract would be treated as a nominate sales contract under the *BGB*.

27 A variation of section 2 of the Sales of Goods Act 1979 (UK).

28 As is the case in France where despite its absence from the Civil Code, electricity has been made ‘special property’ by statute. Although it has not been made tangible property (goods)!

29 See paragraph 45.

30 As well as a perpetual licence Oracle did also offer the alternative of a licence having fixed, but renewable periods.

31 See paragraph 46.

32 Paragraph 49.

33 Examples are given in the second paragraph below.

34 Although not relevant to a decision on harmonised EU law by the CJEU, it is ironic that only one year before the English Technology and Construction Court under the High Court of Justice in *London Borough of Southwark v IBM* [2011] EWHC 549 (TCC) had considered it was nec-

## Revisiting UsedSoft v. Oracle: Is Software Property and Can It Be Sold?

### a) One-time Fee

It is long accepted that intellectual and industrial property licences may be granted in exchange for a one-time fee (so-called ‘lump sum’ payment) rather than periodic royalties. Such an arrangement does not invalidate the licence agreement or convert it into a sale. Further, it is not unknown for patent and copyright licences to omit a term which expressly stipulates the number of years the licence is granted. Courts have construed such licences to run for the life of the IP right<sup>35</sup>. Why should a software licence be treated differently? Furthermore the term of the licence would only be ‘perpetual’ if all the licence conditions were observed. The licence could be terminated by Oracle or the licensee on breach of any terms. Such a situation indicates a very fragile ‘permanence’ and is not a characteristic of a classic sales transaction.

### b) Incompatible Servitudes

Can a contract of *sale*, as Oracle’s licence was found to be, include terms imposing obligations on the first acquirer on how the product sold can be used? For example, the number of employees that can use it, the purpose of its use, the address and country in which it can be used, a prohibition on reverse engineering, a requirement that the acquirer’s use can be audited by the rightholder from time to time, or that the product cannot be assigned to a third party (resold)? Or that a breach of these or other terms can allow the rightholder supplier to terminate the ‘sale’ agreement? As explained earlier, under the common law such servitudes in a sale agreement for movable property have been prohibited for over 400 years and their inclusion will void the agreement.

What is the situation in civil law jurisdictions? Can a sales contract for a car impose terms of use? Such as number of drivers, the country it can be driven in? And also provide termination for breach of any such term? If not, why is this also not appropriate for an alleged ‘sale’ of a copy of software?

Apart from the US, in common law jurisdictions licences are personal to the licensee and cannot be transferred unless there is a term in the licence which gives the licensee such a right<sup>36</sup>. In any event in Oracle’s licence, as is customary in software licences, there was an express term denying transferability of the licence.

## 4. Common European Sales Law and the E-Commerce Directive

The CJEU in ascertaining the meaning of “sale” as used in the exhaustion clause of Directive 2009/24 said that it should not be found in national law and had to be a concept of European Union law applied throughout the EU. The CJEU did not mention any research it had undertaken of EU sales law. Of course there was no EU sales law in place (and there is still not) and presumably the CJEU thus felt free to come up with its own definition which it alleged was “commonly accepted”.

essary to review and take into account every term in a software supply contract to decide if the transaction was a licence or a sale. It concluded from the nature of these terms that the contract was a licence and not a sale.

35 For a US example, see *BJM Inc v Melpot Corp*, Supp 2d 704 (1998).

36 *Howard & Bullough v Tweedales & Smalley* (1895) 12 RPC 519.

### a) Common European Sales Law Proposal

But there was a Proposal for a Common European Sales Law COM(2011) 635 (‘CESL’)<sup>37</sup> in place which had the obvious potential to at least provide guidance on the characteristics of sales transactions. Article 5 defines three different forms of transactions to be covered by the CESL. Only two need to be considered here. The first is ‘sales contracts’ which were defined in Article 2(k) to mean contracts under which the seller transfers ‘the ownership of goods’ to another person, and ‘goods’ is defined in Article 2(h) to mean ‘any tangible movable items’. The second distinct transaction type was ‘contracts for the supply of digital content’ and ‘digital content’ is defined in Article 2 to include software.

It will be seen that a contract for the supply of computer software was not a *sales* contract under the proposed CESL. This is a clear recognition that a sales contract is not the appropriate classification for a contract for the supply of software and Article 5(b) makes it clear this is the case whether or not it is supplied on a tangible medium.

If the CJEU had adopted the structural principles of the proposed CESL then it would have had to conclude that the contract between Oracle and its customers for downloads of its software was not a sale and was in fact a contract ‘for the supply of digital content’. The latter of course being commonly referred to as a licence both in the EU and the rest of the world.

### b) E-Commerce Directive

While there was no EU sales law as such actually in force, the E-Commerce Directive 2000 was definitely in force. This Directive governs information society *services* and ‘services’ are defined in Article 2 (with reference to the Article 1(2) definition in the Technical Standards Directive) as ‘any service normally provided for remuneration, at a distance, by electronic means and at the individual request of a recipient of services.’ This includes the online supply of computer software<sup>38</sup>.

Even if supply by download is made as part of a sales contract, under the E-Commerce Directive what is sold is a *service*. Therefore an electronic supply of software, being part of a sale of a service cannot be captured by the CJEU’s own definition of a ‘sale’, because the CJEU itself limited this to a transfer of ‘tangible or intangible property’.

## VI. Conclusions

It is submitted that the real issue was not whether online delivery of software should not legally be different from delivery on a CD, but whether in either case a copy of software was sold rather than licensed. Even if it is assumed for the sake of argument that the CJEU was correct in interpreting the software licence transaction to be a contract of sale, that decision was as a matter of legal logic insufficient because there was no property in the software (because it is an intangible) in which ownership could be transferred by way of sale<sup>39</sup>.

37 It was unfortunate that this 2011 Proposal was withdrawn by the EU Commission on 16 December 2014 in favour of a modified Proposal for the ‘Digital Single Market’, because when the latter Proposal was released in 2016 it omitted to deal with contracts for online supply.

38 Confirmed in the 2003 Commission Report on Directive 2000/31/EC, p4.

39 The author would like to point out that he personally believes software

## Classification of Software as Goods

*Avoiding a Minefield:* One way of viewing this judgment is that the CJEU in fixing on exhaustion of the distribution right strayed into sales and property law, but because it was wearing free movement of goods ‘blinkers’ did not appreciate the intangible property minefield into which it had entered.

*Scope of CJEU’s “Sale” Definition:* Since there was no EU sales law<sup>40</sup> the CJEU’s decision on the definition of a sale can only apply to Article 4(2) of the Software Directive 2009. It surely has no power to pronounce on law which is not the subject of a harmonising Directive or Regulation. Does the CJEU decision go so far as to impact on national property law as suggested by *van Engelen* – to produce what he describes as a ‘revolution in the area of property law’ leaving a ‘mess’<sup>41</sup> in countries with Civil Codes similar to the German model? It is submitted that this should not be the case because the CJEU has no jurisdiction on the basic structure of property law in Europe. This is not harmonised European law. The CJEU’s pronouncement on sale must be a definition solely for the purposes of the Software Directive.

(and some other intangibles) should constitute property at law. Especially source code, the most valuable asset of any software development businesses. There should be two categories of movable property – tangible and intangible. See Moon, ‘The Nature of Computer Programs: Tangible? Goods? Intellectual Property’, [2009] EIPR 396. However, this must come about as the result of a specific statute or a fully reasoned court decision which takes into account all the pros and cons. The Supreme Court of New Zealand got close to making such a decision in *Dixon v R* [2015] NZSC 147 in deciding, albeit in an unsatisfactory way, that digital files constitute property. Unfortunately the files in question contained CCTV images and were therefore data rather than computer programs.

<sup>40</sup> And such a law appears to be a long way off. The Commission withdrew the Proposal for a Common European Sales Law in 2015. See note 36.

<sup>41</sup> To quote *van Engelen*, see note 5.

*WCT Compliance:* On reflection, it is surprising the CJEU did not imply the WCT non-exhaustible communication right into the meaning of ‘distribution’ in the Software Directive bearing in mind the CJEU has been enamoured with the communication right in the InfoSoc Directive – to such an extent the communication right has become so wide-ranging and powerful as to rank with the fundamental reproduction right!

*The ‘Content Paradox’:* It seems clear from the CJEU and European national court decisions on licensed digital content such as video games and eBooks, which have been made subsequent to the *UsedSoft* decision, that while business corporations which possess very expensive commercial software under a licence can sell this software second hand, consumers who possess inexpensive personal content such as video games and eBooks under licences are not permitted to sell them second hand. The economic logic of such a paradoxical state of affairs defies explanation. After all, unlike the consumers, the users of Oracle software were medium to large enterprises and the transaction they entered into was business-to-business (B2B) where surely the principle of freedom of contract should not be discarded.

*The remedy* for the apparent inconsistency is for the EU to amend the Software Directive 2009 to implement the WIPO Copyright Treaty by introducing a non-exhaustible communication right.

In the meantime within Europe the *UsedSoft* decision has become one factor driving the move to software as a service (SaaS) in the Cloud from traditional in-house IT systems where businesses need to have possession of all software they use.



## Case Law

### UK: Classification of Software as Goods

Commercial Agents Directive (86/653/EEC) Art. 17

Editor’s Headnote

**Because the essential characteristics of a piece of software cannot depend on its mode of delivery, today standard commercial software has to be regarded as goods, despite not being in tangible form at the time of delivery.**

English High Court, decision of 1 July 2016 by Judge Waksman

#### Facts

The facts of *The Software Incubator Ltd v Computer Associates UK Ltd*<sup>1</sup> are unexceptional. The Software Incubator Ltd (“TSI”) was the corporate vehicle through which Mr. Scott Dainty carried on a business as a distributor of standard software under a non-exclusive agency agreement with Computer Associates, UK Ltd

(“CA?”). TSI was engaged to promote CA Software through Mr. Dainty but six months into the agreement CA served a Notice of Termination of the agreement. Mr. Dainty, shortly thereafter, made critical comments about CA, embarked upon preparatory acts to take up employment elsewhere (disclosed on Mr. Dainty’s LinkedIn account) and conducted himself in a manner that CA saw as uncooperative. Mr. Dainty then received a Letter of Summary Dismissal which had the effect of terminating the agency immediately at common law. Mr. Dainty was given the appropriate period of notice in the Notice of Termination, but CA, by serving the Letter of Summary Dismissal one month later, sought to avoid any obligations to compensate TSI/Mr. Dainty at all on the basis of Mr. Dainty’s misconduct. Mr. Dainty did not accept that he had engaged in conduct that would justify summary dismissal by CA. TSI sought damages at common law, because the requisite period of notice had not been given, and compensation and commission payments due under the Commercial Agents Directive<sup>2</sup>. In response CA argued that the Summary Dismissal was justified

<sup>2</sup> Council Directive of 18 December 1986 on the coordination of the laws of the Member States relating to self-employed Commercial Agents (86/653/EEC). In *The Commercial Agents (Council Directive) Regulations 1993* (1993 No. 3053) the transposition of the Directive into the activities of commercial agents in Great Britain is not a literal transposition (separate regulations apply to Northern Ireland). Judge Waksman cited the 1993 regulations in his judgement.

<sup>1</sup> [2016] EWHC 1587 (QB); [2017] Bus LR 245.