

Market Update: July 2012

EU Court Landmark Ruling: Legalities of Second-Hand Software Re-affirmed

Further to our [review](#) of the legalities of the second-hand software industry throughout May and June, the Court of Justice of the EU (CJEU) has upheld the General Advocate's opinion and ruled that intangible software can be resold regardless of the vendor's transfer provision. This refers to the [Court Judgement of the CJEU](#) (Case C-128/11 - 3rd July 2012) in a case between the administrators of UsedSoft GmbH v Oracle International Corp, in which the [Principle of Exhaustion](#) and the [EU Software Directive 2009/24/EC](#) were put to the test. This case was referred to the CJEU by the The Bundesgerichtshof (Federal Court of Justice, Germany) who still has to make the final ruling but it is certain to follow the CJEU's judgement. The following highlights the key clauses from the judgement and summarises in laymen's terms:

47: "it does not appear from Article 4(2) of Directive 2009/24 that the exhaustion of the right of distribution of copies of computer programs mentioned in that provision is limited to copies of programmes on a material medium such as a CD-ROM or DVD. On the contrary, that provision, by referring without further specification to the 'sale ... of a copy of a program', makes no distinction according to the tangible or intangible form of the copy in question."

It is irrelevant as to whether the software is tangible or intangible (digitally downloaded). As long as the software licence is perpetual (unlimited life) and a form of payment has occurred, a sale (transfer of ownership) will have taken place and the software vendor (rights holder / author) thus exhausts its right to control subsequent distribution i.e.: of a secondary supplier.

77: "It follows that, by virtue of that provision and notwithstanding the existence of contractual terms prohibiting a further transfer, the rightholder in question can no longer oppose the resale of that copy."

'By virtue' of the EU Software Directive, even if the licence agreement restricts or prohibits resale or transfers, the software vendor can no longer oppose the resale of that software licence copy.

67 & 68: "...the conclusion of a maintenance agreement, such as those at issue in the main proceedings, on the occasion of the sale of an intangible copy of a computer program has the effect that the copy originally purchased is patched and updated. Even if the maintenance agreement is for a limited period, the functionalities corrected, altered or added on the basis of such an agreement form an integral part of the copy originally downloaded and can be used by the acquirer of the copy for an unlimited period, even in the event that the acquirer subsequently decides not to renew the maintenance agreement...In such circumstances, the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 extends to the copy of the computer program sold as corrected and updated by the copyright holder."

Oracle offers a maintenance agreement with its products but even if the maintenance is for a limited period or is altered / updated, such an agreement forms an integral part of the software licence copy purchased and can therefore be used by the first acquirer / customer for an unlimited period.

69: "...if the licence acquired by the first acquirer relates to a greater number of users than he needs, as stated in paragraphs 22 and 24 above, the acquirer is not authorised by the effect of the exhaustion of the distribution right under Article 4(2) of Directive 2009/24 to divide the licence and resell only the user right for the computer program concerned corresponding to a number of users determined by him."

This point needs elaborating on and could have been made clearer by the CJEU in its judgment. The ruling states that an Oracle "licence", which would be more appropriately defined as a minimum "block" of 25 CALs. A company that purchased 100 blocks (2500) CALs can sell off those 100 blocks to 100 different customers but it cannot break down the individual

licence blocks i.e.: a 'licence' cannot be broken down into 5 x 5 user licence blocks. Let's compare this to a Microsoft Volume LA (Select / Enterprise), in which an LA can also be broken down but only to licence level:

[[Example 1](#)]: an LA containing 1000 x Office 2010 PRO can be broken down and sold off in smaller quantities e.g.: 500 + 500; however, you cannot break down / divide at the individual Office 2010 PRO licence level and then sell off as individual components (Word, Excel, PowerPoint, Access etc).

[[Example 2](#)]: Windows SBS CALs could be purchased in licence blocks of 5 or 20 CALs. A company may purchase 2 licence blocks, 1 licence block containing 20 CALs + another licence block containing 5 CALs. The ruling requires that you cannot break down the licence block of 20 CALs and sell off to two different customers in smaller quantities such as 10 + 10 CALs; however, you can sell the 2 licence blocks to 2 different customers.

78: "the original acquirer of a tangible or intangible copy of a computer program for which the copyright holder's distribution right is exhausted in accordance with Article 4(2) of Directive 2009/24 who resells that copy must, in order to avoid infringing that rightholder's exclusive right of reproduction of his computer program under Article 4(1)(a) of Directive 2009/24, make the copy downloaded onto his computer unusable at the time of its resale."

This follows on from clause 69 relating to the division of licences. From the point of resale, the first acquirer must ensure that the quantity of software licences being divested have been de-installed and not in use on its machines. For instance, if you are divesting 500 x Office 2010 PRO from a Select LA containing 1000 licences, you must de-install and not be using those 500 licences by the point of sale.

81: "...in the event of a resale of the copy of the computer program by the first acquirer, the new acquirer will be able, in accordance with Article 5(1) of Directive 2009/24, to download onto his computer the copy sold to him by the first acquirer. Such a download must be regarded as a reproduction of a computer program that is necessary to enable the new acquirer to use the program in accordance with its intended purpose."

Whilst the exclusive right of *distribution is exhausted*, note that the exclusive right of *reproduction* is not exhausted by the first sale. However, any reproduction that is necessary for the use of the software by the lawful acquirer (such as Discount-Licensing.com) in accordance with its intended purpose of the computer programme, may not be prohibited by the vendor within the LA / contract. The lawful acquirer can download a copy of the software onto a computer and make a copy onto a carrier such as a DVD. Such a download / copy must be regarded as a reproduction that is necessary to enable the new acquirer use the program in accordance with its originally intended purpose.

Summary:

Usedsoft's business practices have often gone against the grain of the software vendor's transfer provision with its reliance upon the use of a [Notary Attestation](#). It is understood that Usedsoft's use of a Notary certificate was, in part, to hide where the licences came from. We have learned from a different court judgement that Usedsoft purchased 'new' educational volume licences and resold those licences to private / public sector organisations (the Notary certificate cloaked this fact). The German court banned Usedsoft from continuing to state that the Notary certificate guaranteed that the software licences being supplied were legally transferrable. Despite this lucrative business model (new educational licences are purchased at a fraction of real second-hand commercial licences), Usedsoft was in administration (insolvency) at the time of the ECJ ruling. Any client considering the secondary software licence market should always question the transparency of the secondary supplier's business models so that there is tangible evidence of the transfer of ownership back to the original acquirer. Never rely on a Notary.

On a positive note, this ECJ ruling puts a long awaited dent in the FUD (Fear, Uncertainty & Doubt) tactics employed by the software vendors. Although Microsoft still has a transfer provision within its licence agreements, any restrictive or prohibitive changes would now be futile.



If you require any further information on the legalities of secondary software licensing, please send your query to info@discount-licensing.com or call +44 (0)845 475 5959.

Regards,

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