

ECJ deals blow to Oracle on Resale of "Used" Software Licences

The Court of Justice of the European Union ("ECJ"), on a referral from a German court, ruled that an author of computer software cannot prevent a resale of his 'used' licences allowing the use of his programs which were downloaded from the internet. According to the ECJ, the exclusive distribution right of a copy of a computer program covered by such a licence is exhausted on its first sale to a customer (UsedSoft GmbH v Oracle International Corp., (Case No. C-128/11)).

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Factual Background

Oracle is a developer and distributor of so-called 'client-server software' which is sold primarily via internet downloads. Under the Oracle license, the licensee is granted the right to store a copy of the program permanently on a server and to allow up to 25 users to access it simultaneously by downloading it to the CPU of their work-stations. Furthermore, the customer is also given a non-transferable usage right for an unlimited period exclusively for his own business purposes. Under a separate maintenance agreement, updates and patches can also be downloaded from Oracle's website.

UsedSoft is a German company which markets "used" licences from Oracle customers. UsedSoft customers download the software directly from Oracle's website by means of a 'used' licence purchased from UsedSoft. Customers who already have Oracle software can purchase a further licence or parts thereof for additional users.

Oracle sued UsedSoft in Germany seeking to prevent the sale of "used" licenses. The German Federal Court of Justice, where the matter came up on appeal, asked the ECJ for an interpretation of the directive EU 2001/29 on the legal protection of computer programs ("**Directive**"), pursuant to which the right of distribution of that copy in the EU is exhausted by the first sale in the EU of a copy of such computer program by the copyright holder or with his consent. An author who has marketed a copy in any EU Member State thus loses his monopoly of exploitation so that he can no longer oppose the resale of that copy anywhere in the EU. Oracle had claimed that the principle of exhaustion as laid down in the Directive does not apply to user licences for computer programs which were downloaded from the internet.

**Interpretation of the
principle of exhaustion
by the ECJ**

According to the ECJ, the principle of exhaustion of the distribution right applies not only where the copyright holder sells copies of his software on a physical storage medium (e.g., CD-ROM or DVD), but also where these are distributed via internet download.

If the copyright holder provides his customer with a (tangible or intangible) copy of the software and also grants the customer the right to use that copy for an unlimited period of time, the copyright holder effectively sells the copy to the customer and thus exhausts his exclusive distribution right. As this type of transaction entails a transfer of ownership of the copy, the copyright holder can no longer prevent a resale of that copy even if the licence agreement provides that the usage right is non-transferable.

The ECJ also states that limiting the application of the principle of the exhaustion of the distribution right to copies of software which are sold on a physical storage devices would allow the copyright holder to control the resale of copies via the internet and to demand additional compensation on each new sale even though the first sale of the copy had already given him an appropriate remuneration. This would go beyond what is deemed necessary to safeguard the intellectual property contained in the software.

The exhaustion of the distribution right also includes the updates made to the copy by the copyright holder under a separate maintenance agreement. Even if such agreement is for a limited period only, the changes made under such an agreement become an integral part of the copy which was originally downloaded and may thus also be used by the customer for an unlimited period.

Practical Consequences

The ECJ added that, if the licence acquired by the first purchaser covers a greater number of users than he needs, that purchaser is not authorised to divide the licence and resell only a part thereof.

The original purchaser of a license for which the right of distribution is exhausted must also delete or otherwise make the copy downloaded onto his own computer unusable at the time of resale. Any continued use thereof constitutes an infringement of the copyright holder's exclusive right of reproduction since, unlike the exclusive right of distribution, the exclusive right of reproduction is not exhausted by the first sale. However, according to the ECJ, any reproduction that is necessary for the proper use of the computer program by the lawful acquirer in accordance with its intended purpose is permitted under the Directive and may not be prohibited by contract. Any subsequent acquirer of a copy for which the copyright holder's distribution right is exhausted is a lawful acquirer within the meaning of the Directive. He can therefore download the copy which he has acquired from the original purchaser.

The decision, which comes as no surprise to observers, is a severe setback to Oracle and many other software companies using similar licensing models. It is expected that henceforth many companies will change their license models in the EU to provide for, e.g., only limited license periods or switch to software leasing or SaaS models.

