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EU Copyright Developments – the *UsedSoft* case

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FIRST SALE

**or “when is a software licence
assignable even if it says it’s not?”**

UsedSoft – the decision

- Software vendors cannot stop the on-sale of second hand software within the EU where the copy of the software was licensed:
 - into the EU
 - on a perpetual basis and
 - for a one-off fee.
- This kind of licence is considered a “first sale” in the EU, unlike the US position. First sale exhausts the right to control onward distribution.

UsedSoft – when is there a “first sale”?

- “First sale” means the transfer of a right of ownership in the particular **copy** of the software.
- If the copyright owner authorises downloading and confers the right to use the downloaded copy **for an unlimited period**, in return for “**payment of a fee intended to enable him to obtain remuneration corresponding to the economic value**” of that copy, the distribution right for that copy is exhausted.
- It doesn’t matter what technology or label you use.
- *The original licensee must make its own copy of the software “unusable” since it no longer has any right to use it.*

UsedSoft – what are the business implications?

- Significant business implications because cuts off the revenue stream (but not maintenance and support fees).
- In the EU, a software vendor cannot use its copyright to object to use of its software by someone who has bought a second hand licence, where a “first sale” licence was granted.
- If there’s no contractual relationship, what happens to liability caps and other protections?

What are the limits on the impact of the case?

- N/A when software is licensed for a recurring fee, for a limited period or on a rental basis.
- Probably therefore N/A to cloud-based services.
- Licensee cannot split up a licence for a single block of users and sell off only the unwanted number of users (so an enterprise licence cannot be divided up, but can be sold on in its totality).
- Maintenance and other service agreements cannot be on-sold unless they are assignable so the buyer of the licence cannot insist on receiving / renewing services.

Are all licence terms just disregarded?

- An unresolved issue.
- Can vendor insist on compliance with other licence terms (e.g. no. of users, location of use)?
- In Oracle, the number of licensed seats could not be split up.

How can you mitigate the risks?

- E.g. require acquirer to **register** and to pay an admin fee if it wants support, so vendor can check which version it is using and enter into a direct licence contract imposing restrictions (e.g. liability caps for vendor).
- Judgment acknowledges that vendors can use **technical protection measures**, e.g. licence keys, to make sure old licensee cannot still use the software.
- Can licensor also use TPMs to thwart second hand sales altogether? Possible anti-trust risks.

How should you change your licensing strategy?

- Does *UsedSoft* justify changing **EU** business models where you currently use **perpetual** licences (especially for **unlimited user numbers**). What do customers want?
- Consider
 - (a) **splitting out the EU** from global licences and
 - (b) implementing processes in the EU to **bind** 2nd hand purchasers to licence terms, so you have privity.
- Check the **assignability of maintenance agreements**.
- Consider **tying** the licence duration to paying for maintenance (subject to anti-trust issues).