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### The limits of open source: lawful user rights, exhaustion and co-existence with copyright law

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**Case:** Landgericht (Munche) (GPL General Public Licence: Welte v Fortinet UK Ltd) (21 O 6123/04) (Unreported, May 19, 2004) (Germany)

#### **\*I.P.Q. 14 INTRODUCTION**

A series of court decisions in Germany has held the General Public Licence (GPL) enforceable, including its prohibition on commercial exploitation of Open Source Software (OSS). The decisions were decided on the basis of contract rather than copyright law. The defendants, who in each case had attempted to exploit OSS commercially in other products, were prohibited from any further use.<sup>1</sup> But despite initial cries of joy from the open source community, the decisions' true impact remains far from clear: Open source licensing (OSL) models--apart from the merits of rationale to enforce OSS agreements as a matter of legal policy<sup>2</sup>--do not easily co-exist with copyright law. Although open source models utilise copyright protection to protract a binding effect of licensing agreements, reliance on copyright is at odds with its provisions restricting the owner's powers for more overarching public policy concerns, such as consumer protection and market transparency. Enforcing the GPL is, therefore, not a matter of declaring it "valid" but of elaborating meaningful distinctions between standard **\*I.P.Q. 15** software sales and viral contracts. In addition, OSL conflict with delicate standards of commercial software contracts, in particular as regards consumer contracts. The article analyses the extent to which such conflict truly exists and evaluates the potential for adapting copyright law to the needs of OSS without sacrificing other important concerns of copyright law.

The article will, after a brief introduction into basic aspects of OSL and their origin in the US concept of licensing, explain the approach in Germany as a starting point for a thorough discussion of residual complexities arising from open source licensing structures. It will analyse relevant issues, in particular as regards the enforceability of OSL under both general principles of contract (including copyright contract) law and fundamental principles of copyright, such as impact of the exhaustion doctrine with its complex operation in case of subdivided licences<sup>3</sup> and the normative protection granted to lawful users.<sup>4</sup>

#### **A. Open source and the use of copyright as an excluding factor**

OSL permit anyone to use and develop software subject to certain conditions. These conditions, as provided under the GPL licence<sup>5</sup> and others, contain the central obligation not to exploit commercially any version that was created under a valid licence and, additionally, to only transfer use rights if the acquirer is made aware of the obligations arising under the GPL and adheres. In cases of non-compliance, the rights granted shall be terminated and fall back to the previous licensors.<sup>6</sup> The terms and conditions under the GPL are thus based on copyright protection, and, more precisely, on the US American perception of licensing.<sup>7</sup> OSL, in order to allow the creation of workable viral contractual obligations between a potentially unlimited number of users and owners, must fundamentally rely on restrictive licensing clauses; these clauses need not only ensure that the immediate acquirer is bound by the conditions under the GPL. It is vital for the success of the overall licensing structure that third-party acquirers of OSS can, to a maximum degree, be legally prevented from using the software.

The reason for the exclusionary effect is not so much the ability to restrain the mere use of the software. The aim is to remove the incentive to exploit OSS commercially at the outset. Copyright protection is employed as an instrument that, as a right *in rem*, facilitates the necessary control<sup>8</sup> to a maximum exclusionary effect. This resonates with **\*I.P.Q. 16** the underlying impetus to create a culture of sharing<sup>9</sup> and the innovation benefits by limiting the subsequent creation and supply of

commercial software products based on the original open source code.<sup>10</sup> Commercial vendors breaching the condition not to resell the software will therefore lose any rights previously acquired under the GPL at the very moment the conditions are violated.<sup>11</sup> This means that no further right *in rem* can be transferred. The vendor would thus breach his contractual obligations vis-à-vis the buyer. Open source networks are fundamentally directed towards the re-development of software, that is, to permit community members to continuously modify the software in question.

However, this is not necessarily a linear process. The possibilities of modifying software are limitless. Numerous developers may improve upon certain aspects of the original software, or may incorporate protected elements of the original software into entirely different applications. Since access to the source code is unrestricted, there is a very realistic danger of the original software being used and subsequently incorporated into an increasing number of individual software products. This danger will exacerbate in tandem with an increased distribution of OSS. It will be uncertain whether a piece of software commercially sold contains elements or traces of previously modified OSS, and if so, whether these elements are still protected. Third parties acquiring such software by way of commercial transactions will therefore face liability risks. That risk will become increasingly relevant the more the markets for open source and commercial software converge, a scenario not unlikely given the easy source code access that is provided for under the GPL and that will certainly encourage commercial software developers to take advantage.

The two most important principles the GPL may conflict with concern the protection of the lawful user of a computer program and, in addition, the effects of exhaustion. As to the latter, the core and highly intricate problem area that will be analysed concerns the effects of restrictive contractual clauses in an agreement concerning the use of copyrighted works in general on the scope of the exhaustion principle. As will be pointed out, the uncertainty of how copyright-owners can influence the scope to which exhaustion occurs at the point of first sale is immensely difficult to comprehend.

### I. Structure and scope of the analysis

The decisions may have undesirable consequences. They remain, in particular, silent on the interaction between the contractual enforceability of the GPL and its effect on norms protecting “outsiders” to the GPL, in particular users who may have obtained GPL software bona fides against payment. The courts did not formulate a compelling demarcation line allowing a clear distinction between open source and commercial copyright contracts.

**\*I.P.Q. 17** Part B will describe the decisions and their background under German law. Part C analyses the “contractual solution”, based on the “bare licensing concept and its potential spill over effect on the law relating to commercial software contracts. Part D will consider the outer limits of OSL, namely the effects of copyright norms that limit copyright for public or individual benefit. These aspects were not considered in the decisions but the approach preferred by the courts potentially has implications going beyond the immediate relationship between the open source community and the first acquirer breaching the GPL conditions. Here, emphasis is placed on the interaction between legal norms providing restrictions on the powers of copyright-owners. Importantly, this concerns rather intricate issues of the interface between the power to restrict (software) licences in scope via restrictive contractual clauses on the one hand, and the effects that such restrictive clauses have on third-party acquirers on the other hand.

### II. The foundations of the GPL in US copyright licensing concept

In general, GPL licences constitute agreements by which certain aspects of the copyright in previous versions of software licensed under the GPL can be transferred, and here copyright is employed to maintain the enforceability of the conditions regardless of whether the acquirer is bound in contract. Hence, the GPL attempts to uphold copyright protection in order to provide a framework whereby certain rights to use or adapt the software can be initially restricted, and that restriction must, in order to allow the binding of third parties, have an *in rem* element.

The GPL licensing model is based on US copyright law<sup>12</sup> and has, on various occasions, been successfully enforced.<sup>13</sup> This is--apparently--more effortlessly achievable: US American law distinguishes between “bare” or “simple” copyright licences and contracts much more firmly.<sup>14</sup> Under US law, the contract embodying a GPL licence is thus concluded by transferring onto the user an aspect of copyright that is initially restricted, and thereby the conditions under the GPL form part of the copyright licence<sup>15</sup> **\*I.P.Q. 18** rather than constituting contractual agreements.<sup>16</sup> This concept of a “bare” licence denotes that, unless such licence exists, the user will have infringed copyright.<sup>17</sup> Hence,

the acquirer, under US law, is only permitted to “use” the software within the realms of a licensing agreement.<sup>18</sup> In the case of non-compliance, he violates copyright rather than a contractual right.<sup>19</sup> This approach stems from the more extensive understanding of the term “licence” and the ensuing concepts invoked by US courts holding that OSL, and in particular the GPL, constitutes a bare or simple licence rather a mere contract.<sup>20</sup> Here, copyright functions to secure a binding effect *in rem* on third parties.

### III. Statutory recognition of OSL

The German legislator has created an initial concession in Art.32(3) (the “Linux” clause), according to which an author may assign such use right to anyone without payment of a licence fee.

The provision was introduced as part of the recent reform aiming to strengthen author's rights in exploitation contracts. Its initial function is to overcome the general regime under Art.32(1) and (2) CA, according to which the author can claim equitable remuneration, which includes the general right to ask for a monetary adaptation of the terms of the exploitation contract even after the contract had been concluded.<sup>21</sup> These conditions are applicable even where a contractual agreement seeks to exclude those rights. Article 32(3) (3) thus preserves the ability of authors, including authors of computer programs, to assign use rights unilaterally to anyone without such remuneration. There is consensus that any future use of such right for commercial benefit renders the “Linux” clause inapplicable.<sup>22</sup> However, the clause does not apply in cases where a third party violates the terms under the GPL. The introduction of these provisions was taken to underpin the general enforceability of OSL.<sup>23</sup> The “Linux” clause merely effects that the acquirer may use the software, and that the transfer of the copyright as between two parties does not give rise to any future claims for equitable remuneration under Art.32(1) and (2). Under general concepts of copyright contracts, the first author immediately preceding in the chain would only be able to license that portion of the version in question that he created; this is the copyright in the modified version, *\*I.P.Q. 19* provided that such modification itself represents protectable subject-matter, i.e. reflects the “author's own intellectual creation”. The remaining elements of the software--that is, elements that already formed part of the initial version distributed--are logically not subject to the “Linux” clause.<sup>24</sup>

There is no further provision under statutory German copyright contract law.<sup>25</sup> Apart from the restricted scope of applicability of these norms, the general law as it relates to software licensing remains applicable.

### B. Open source in German courts: judicial responses

The decisions concerned, as noted, almost identical factual scenarios. In each case, the defendant attempted to redistribute software that was previously acquired through websites offering OSS under the GPL for download; that software eventually was used as an element in various devices such as routers.<sup>26</sup> The devices were intended for sale in Germany. The following description will focus on the decision of the Munich Regional Court as the first and, in terms of legal analysis, most comprehensive decision. Subsequent decisions by other regional courts follow this pattern almost identically and make ample reference to the Munich ruling.

#### I. General overview

The Munich court decision concerned an action for injunctive relief that was later upheld. The claimant (in all cases the same person) is a software developer working as a core member of a project that aims to update and replace the Linux firewall with a new software architecture. The software was originally an integral element of the Linux system and was offered free for download from the Linux website in source code from the project's website. The website indicated that the software was only provided subject to the licensee complying with the GPL, a text of which was available and clearly indicated. The defendant later offered products for sale from his own website. The GPL was not attached nor was its applicability indicated. The claimant asked for preliminary estoppel, which was granted.

The court declared No.4 of the GPL--which stipulates the automatic loss of rights licensed in case of its violation--valid according to the law relating to standard business terms and conditions (Arts 305 *et seq.* of the Civil Code). It followed that the claimant, in *\*I.P.Q. 20* distributing the modified software without attaching a copy of the GPL had violated the licensing terms and that therefore he had no future right to do so. In short, any violation of the terms of the GPL automatically and simultaneously removes the licensee's position.

## II. The structure of the decisions: the *conditio subsequens* formula as a new paradigm of software contract law?

### 1. Contractual agreement

The court first observed that the offer for free download did not constitute a waiver of copyright. It was, furthermore, satisfied that the claimant jointly owned the copyright in the software and therefore had *locus standi*. The court continued to assess the nature of the underlying transaction and concluded that the intention in offering the free software was to transfer certain non-exclusive rights, in particular the right to reproduce, modify and distribute any such version that originally. The court then had to consider the legal nature of such agreement under contract law. The court did not specify the legal category of the agreement under general contract law. It confined itself to stating that the agreement the defendant had consented to stipulated a transfer of non-exclusive rights, i.e. certain use rights as indicated in the terms on the claimant's website. The court did not fully engage in a discussion on the modalities of contractual consensus, but was satisfied that the defendant had positively known that the software was subject to the GPL.

The court categorised the GPL as standard business terms (Art.305(2) *et seq.* of the German Civil Code) and concluded that the GPL had, given that its text GPL had been visibly made available on the website, been validly incorporated into the contract. The court then considered whether the condition imposed under No.4 of the GPL was compliant with the law on standard business terms.<sup>27</sup> The court then considered No.4 GPL under Art.307(1) of the Civil Code, which declares contractual conditions that are unduly disadvantageous invalid.<sup>28</sup> At this point, the court had to address the central intricacy of open source licensing models under German law: the question of whether No.4 GPL was enforceable as a standard business term depended on whether it disadvantaged the user; whether such disadvantage can be ascertained first depends on whether a deviation from statutory law can be ascertained.<sup>29</sup>

#### **\*I.P.Q. 21 (a) Reservation of title and loss of rights**

The central issue, therefore, was whether the automatic reversal of use rights<sup>30</sup> was compliant with the law on copyright contracts. Article 31(1) of the Copyright Act permits the copyright owner to subdivide a licence with effect *in rem* in relation to time, geographical and product market.

However, there are limits.<sup>31</sup> A subdivision with effect *in rem* (i.e. one that enables the copyright-owner to enforce copyright beyond the first licensee) for reasons of maintaining market transparency, needs to comply with certain conditions. These require that, if the distribution right (Art.17(1) of the Copyright Act) is to be subdivided with effect *in rem*, the modalities of use must constitute commercially customary and technically and commercially discrete forms of use.<sup>32</sup> The restraints imposed on licensees under the GPL as regards the specific restrictions of use under No.2 GPL<sup>33</sup> did, according to the court, not meet that requirement.<sup>34</sup> The effect would have been to invalidate No.4 since the restrictions under No.2 would not have been considered as not compliant with the limitations on subdivisions under copyright contract law. Hence, the defendant would have acquired an unrestricted right to distribute the software, with the further consequence that once the defendant had sold the software, the distribution right would have been exhausted<sup>35</sup> and the software could have been freely traded.

This, the court wished to avoid. It noted that, for two reasons, the judicially imposed constraints under Art.31(1) were immaterial. First, it considered the automatic loss of rights as the most central clause of any open source licensing structure, and indicated that it would, if Art.31(1) operated so as to invalidate that condition, consider whether the entire contract would be void under Art.306(3) of the Civil Code<sup>36</sup> *ab initio*.<sup>37</sup> It would follow that no rights had ever been transferred.

#### **\*I.P.Q. 22 (b) The *conditio subsequens* formula**

Eventually, the court held that, as far as No.4 GPL was concerned, the licensor was able to rely on a legal construct that was previously employed in only one precedent case in the context of copyright licenses.<sup>38</sup> It considered the GPL to contain a transfer of exclusive rights under copyright that in turn is subject to the acquirer not breaching its core conditions. This concept of a *conditio subsequens* follows from Art.158(2) of the Civil Code.<sup>39</sup> In relation to the GPL the application of that principle effects that as soon as the acquirer of OSS--provided he had knowledge of the applicability of the

GPL--automatically loses all rights previously licensed, a solution structurally and functionally identical to that which No.4 GPL envisages.

Hence, the transfer of a right *in rem* --the right to copy and distribute the OSS as proprietary aspects of the authors right--is only granted by the licensors provided that the acquirer complies with the terms and conditions under the GPL. If GPL is violated, Art.158(2) of the Civil Code provides that the legal effects of a transaction that was made subject to a *conditio subsequens* are terminated. The licensee will therefore lose any rights with effect for the future.<sup>40</sup>

### **(c) The conflict with Art.31 of the Author's Right Act**

The court further addressed the potential conflict between Art.31 of the Copyright Act, which only permits limitations that have an effect *in rem* in case the limitation concerns a separable mode of exploitation,<sup>41</sup> and the construct under the *conditio subsequens* approach.<sup>42</sup> It plainly noticed that the *conditio subsequens* solution affords a workable device through which the constraints imposed upon licensors under Art.31(1) may be circumvented.

Indeed, the court expressed the view that a conflict with Art.31 and the free trade protection it affords was largely absent. The GPL allows any third party to re-enter at anytime into a licensing agreement and thus to acquire a continuously acquire a new use right. The GPL grants the rights to reproduce and redistribute the program. The conditions under which those rights are granted are subject to the restrictions under Art.31(1) as regards the divisibility of rights with effect *in rem*. In general, an acquirer of use rights may sublicense those rights if the copyright-owner does not expressly object.<sup>43</sup> Such objection may have an effect *in rem* but is not foreseen under the GPL. A certain binding effect on third-party acquirers that limits both the ability to use OSS and the ability to re-distribute it for profit then depends on whether the use rights are initially restricted with effect *in rem*. Since, as already noted, the viability of such restriction depends on whether the mode of exploitation can be said to be uniform and separable, different positions may be taken as regards the rights of third parties. For **\*I.P.Q. 23** instance, it may be argued that an *in rem* effect must be acknowledged at least as far as the prohibition to exploit the program commercially is concerned. Likewise, it may be argued that the obligation to distribute the program only where the acquirer was made aware of the GPL has such effect. If so, that initial limitation to such forms of use would automatically exclude any previous licence relating to commercial uses. However, as was indicated in the decision by the Frankfurt District Court, the GPL does not comply with the general preconditions for a limitation with effect *in rem*.<sup>44</sup> The restrictions only have effect *in personam*, provided that, of course, they have been duly incorporated and stand the general test of validity under unfair business terms law,<sup>45</sup> and--as will be discussed below--are compliant with the exhaustion principle.<sup>46</sup> It follows that the GPL is--according to this view--not fully workable.

Thereby, the court recognised that open source contracts are fundamentally distinct from commercial contracts, specifically because the risk of losing rights does not normally have an adverse effect on the position of third parties. It clarified, in supporting that position, that in general contracting parties are free to agree on any term restricting the licensee's use rights, and that as regards software copyright licences judicial control of such terms would therefore be constrained to what is permissible under standard business terms or anti-trust law.<sup>47</sup>

The *conditio subsequens* solution, therefore, appears to render OSL perfectly enforceable; it effortlessly allows the transposition of a combination of legal principles that, finally, permits an unadorned operation of the GPL--a result the court expressly wished to achieve given the general statutory recognition of OSL in copyright contract law.<sup>48</sup> But whereas the underlying aim to exacerbate the open source licensing structure is certainly welcome, reservations remain. As noted, OSL must ensure, to a maximum degree, that the software subject to the GPL remains within the network. The fundamental notion of innovation through sharing therefore requires some reflection in statutory law, which the court had found in assuming the overall enforceability by combining different elements under general contract law, unfair contract terms law and copyright licensing law.

But the court also had to thwart those legal provisions that curtail the powers of copyright owners, that is, exceptions to copyright infringement that permit the use and distribution of protected programs without consent. The two most important provisions **\*I.P.Q. 24** in this respect are the principle of exhaustion<sup>49</sup> and the protection of the lawful user.<sup>50</sup> The GPL conflicts, as already noted, with these limitations.<sup>51</sup> The formula developed by the court helps to avoid the application of these provisions. The reason is that the *conditio subsequens* formula not only allows open source developers to enforce the particular licence contract, but that at the same time the licensee, once the rights are lost

as a consequence of violating the GPL, can no longer grant a subsequent purchaser the legal power to perform acts that would otherwise infringe copyright.

This reasoning is perilous. Under an extremely broad interpretation, it would allow any software copyright-owner to subject immediate licensees, under contract law, to restrictive conditions.<sup>52</sup> The *conditio subsequens* formula therefore effects--if unreservedly applied to commercial software licences--an unprecedented power to control the use of software.

## **2. The differentiation between commercial and OSS licences**

The chief difficulty, it follows, lies in elaborating workable differentiations between OSL and commercial contracts. These differentiations must, initially, recognise both the interests of the open source community to be able to rely on copyright protection and related licences, and the interests of the public in the continued application of legal provisions maintaining market transparency and tradability of copyrighted works, as well as the interests of third parties to use software under a contract even where the seller had breached its own contractual obligations.

Under statutory law, that differentiation must be conducted under Art.31. Securing copyright on the basis of the *conditio subsequens* principle is, however, perilously at odds with Art.31(1).<sup>53</sup> The usual formula used relies on whether the licence modalities in question are sufficiently distinguishable so as to constitute separate markets.<sup>54</sup> As noted, the court held that the GPL was in disagreement with this criterion, and instead reverted to the *conditio subsequens* formula. These deliberations are highly important. The court recognised the implicit danger of an overspill effect of the *conditio subsequens* **\*I.P.Q. 25** principle, and rather evidently endeavoured to elaborate distinctions between the two spheres.

In fact, the deliberations on differentiating OSS and commercial software sales only marginally allow a meaningful distinction. The court justified its aberration from general principles by--predominantly--relying on a less important need to protect recipients of OSS. The traditional restraints on subdividing licensed rights were considered irrelevant. Article 31 was perceived as a matter of maintaining the tradability of copyrighted works in distribution chains, an aspect the court did not deem significant in an open source environment. It was, therefore, only in cases where there are legitimate reasons to uphold restrictions imposed on the recipient that restrictions on further acts of distribution, coupled with an automatic reversal of the licensed rights, was considered a legitimate deviation from copyright contract law principles. The court confined its explanation to situations affecting the immediate recipient of OSS. It concluded that third parties would usually not be affected since their OSS licences would remain intact, provided such third parties acknowledge the GPL.

Given that the rights under the GPL can easily be re-acquired, the court contended that the automatic loss of use rights was not particularly serious as regards both the immediate licensee and a third-party recipient; the OSS model was, accordingly, enforceable. The statutory restrictions placed on copyright licences in general were, therefore, incompatible with the OSS model. Therefore, unless a standard clause is held invalid, licensees can be bound limitlessly *in personam*.

The court also assessed the implications of its reasoning on the exhaustion principle and observed that the user would be unable to redistribute the software, with the subsequent effect that no exhaustion had occurred and that each further act of distribution was still subject to consent. Again, this was justified on the basis that OSS is not traded in a commercial sense, and the court once more referred to the ability to re-enter into a GPL agreement.

## **III. Conclusion**

In essence, the court mainly concentrated on the effect of the *conditio subsequens* formula as it applies to the immediate licensee bound under the GPL, and I would agree with this reasoning to a certain degree. Certainly, the automatic reversal of use rights does not have any serious legal implication for either the immediate recipient of the OSS nor a third-party acquirer. The GPL is sufficiently generous to allow even the previous infringer to re-acquire the licence, and third-party recipients are likewise protected in that the violation by a predecessor in title does not render their use agreement void--provided, however, that the licence was acquired under the GPL and that the user continues to observe its terms.<sup>55</sup>

However, reservations remain. The differentiation expressed, first, only concerns issues of a subdivision of rights under Art.31 and the underlying conflict between the *conditio subsequens*

formula and the general rules on divisibility. Predominantly, this concerns the effect on third parties and therefore the scope of *in rem* restriction in copyright contracts. The decision thus remains silent on the modalities of contractual **\*I.P.Q. 26** consent, the incorporation of standard terms and the effects of the *conditio subsequens* approach upon commercial copyright licences. In this respect, no further differentiation is undertaken. Moreover, the obvious line of reasoning as regards the interface between Art.158(1) of the Civil Code and Art.31 is only very partially of assistance. It appears that the analysis only applies in undemanding cases. It centres on two broader notions, the ability always to re-acquire OSS and the related notion that the software would largely remain the same object. But the ability to re-acquire rights continuously can only provide a sound basis for differentiating between OSS and commercial contracts if these licenses pertain to an *identical* object. If the original item of OSS is later legitimately modified or adapted without infringing copyright in the original OSS, the argument as regards the ability to re-acquire the licence cannot apply. If the software was sold to a purchaser in good faith as regards the GPL, the issue as to whether that third party can rely on the lawful-user provision<sup>56</sup> and, related to this, the more general question of the exhaustion rule, cannot be resolved under the same principle that justifies the automatic loss of rights. In such a scenario, a thorough investigation of the scope of the lawful-user and exhaustion principle, and indeed the relationship of each with contractual restrictions, is called for.

### **C. The *conditio subsequens* solution--differentiation, market transparency and future exploitation**

The ensuing question concerns the level of protection that is or should be granted under copyright law to third parties. The potentially converging use of open source systems and commercial contracts creates a number of grey areas for which the decisions do not provide a satisfying answer. Concerns of third-party protection will emerge as soon as OSS is no longer subject to the viral contract model.

#### **I. Initial conflicts**

The two central provisions whereby third-party protection is granted are the provision on the lawful user under Art.69d and the principle of exhaustion under Art.69c; in both cases, the degree of protection and the preconditions for when and how they operate are subject to a separate discourse and will be considered later. It should suffice, at this point, to draw attention to the overall effects of the formula. This effect lies in the ability contractually to restrict certain rights of the immediate partner to the agreement by which the binding effect of the open source network is perpetuated. In case of non-compliance, the GPL operates to the effect that the party in breach of any of its provision surrenders his use rights.

This loss of rights concurrently may have an effect on the ability of third parties to use and distribute software in all cases, an effect which emphasises the network structure by allowing control over situations in which the conditions of the GPL are no longer binding. The instrument by which this is achieved is the proprietary effect of copyright or, in the terminology of US law, the "bare" copyright licence. If the **\*I.P.Q. 27** acquirer loses any previously acquired rights in cases of non-compliance as a matter of the GPL, subsequent acquirers of any software down the title chain will arguably have to surrender any previously acquired rights. Whether the lawful-user provisions, in conjunction with the principle of exhaustion will enable the purchaser to continue to use the software is, as noted, a different matter and must be answered in accordance with the accepted functions of these provisions vis-à-vis the contractual freedom granted to owners of software copyright. This leads us to the core conflict: if the GPL is to be given effect, the scope of contractual freedom must be relatively high and must simultaneously ensure that those who use and distribute OSS outside the network can be bound by rules with effect *in rem*, i.e. by initially affording control on the basis of copyright law. On the other hand, commercial software copyright law must ensure that the powers enjoyed by copyright-owners are restricted.

As far as the proprietary aspects of copyright is concerned, such restriction is created under the exhaustion principle and its function to secure market transparency by permitting the redistribution of any software that had been placed on the market by or with the consent of the copyright owner. The lawful-user provision complements, as will be discussed later, the effects of the exhaustion doctrine by ensuring that a person who is a lawful acquirer may use the software. This interplay between the lawful-user status and the effects of exhaustion is, therefore, important in order to constrain rights based on property. Again, it must be pointed out that the details of both provisions are subject to an ongoing debate, but the existence of provisions restricting the ability to employ copyright so as to control the use and marketability of software evidently shows a legislative desire to limit the

proprietary effects of copyright in software. The only exception to this, as far as traditional copyright is concerned, concerns the ability to subdivide product markets in accordance with Art.31(1).

In addition, contractual stipulations that go beyond copyright are subject to a tight judicial control according to general provisions restricting contractual freedom. Judicial control of standard contract terms is based on evaluating the individual disadvantages and aberrations of software contracts in accordance with the typified contract model, and here courts would evaluate the impact of restrictive clauses with the commercial reality and model obligations as foreseen under statutory contract law. Under the *conditio subsequens* formula, these means to control the scope of licences are eradicated, since here the licensor is given an unconstrained right to control the licensee's behaviour and, thereby, also to control the future uses by third parties if an uninterrupted chain of title is deemed necessary--a question that, as a matter of general copyright law, is debatable.

This leaves two initial hypothetical possibilities. First, it may be argued that the rationale underlying the enforceability of the GPL now may be extended to all forms of commercial software contracts. Alternatively, the opposite view may be taken: it may be asserted that the courts have inherently restricted the formula to the exclusive and narrow field of GPL licences. Evidently, both assertions are unsatisfying. The decisions express at least some discomfort in applying the *conditio subsequens* approach across the entire range of software agreements, and to that effect have considered the rather insignificant need to protect third parties on the basis of their ability to re-acquire rights under the GPL, and also with regard to the protection afforded under the GPL to third parties if they continue to comply with the conditions. Conversely, however, these **\*I.P.Q. 28** deliberations simultaneously appear to limit the scope of the decisions to comparatively straightforward cases. As noted, the central assertion used in order to elaborate a distinction between commercial and OSS licenses remains the fact that the software licence may effortlessly be re-acquired; indeed, as long as access to the identical software is available without charge, deliberations on third-party protection are misguided, and neither the lawful-user provisions nor the exhaustion rule have any material impact. But, as explained, this argument does not carry very far. Open source "networks" are intended to allow and enable the continuous modification of software rather than the use of pre-existing programs. As a network contract based on free source code access, the GPL must rely on the enforceability of existing legal norms predominantly against those who never came into contact with a version of the GPL. At this point, considerations based on the need to protect those who have acquired software incorporating open source elements become relevant, especially in cases where modified software was purchased or otherwise acquired under a contract for which the acquirer had to pay. It follows that the *conditio subsequens* formula would, under the differentiations elaborated in the decisions, only apply to cases where access to the identical and original software is at issue, but that it cannot resolve--if the arguments on which the differentiation is based--situations which concern modified software commercially exploited. Hence, it would be overstating the importance of the decision to claim that German courts have indeed completely and expressly sanctioned the GPL. The decisions remain limited and leave open the perhaps most important underlying problem of network contracts.

## II. Basic features of software contract law

In general, the German concept of software contracts exhibits a rather delicate architecture in which copyright protection only forms the basis of contractual agreements, whilst general contract law would determine the scope of rights and obligations, as well as inform the judicial review under the provisions on unfair standards terms of business.<sup>57</sup> It should suffice to point out that German software contract law, at least as far as standard software is concerned, does not recognise a "bare licensing" concept. In general, the specific rights of users cannot be restricted as far as they concern necessary uses.<sup>58</sup> Clauses not caught by the lawful-user provision are subject to judicial review under the law on standard business terms and will be assessed with regard to the underlying type of contract rather than the copyright licence implied in such contract. Often, such contract is classified as purchase, in which case most restrictive clauses limiting the ability to use the software will likewise be void.

Software contracts are, of course, subject to freedom of contract. In practice, however, courts have drastically constrained the capacity of licensors to impose conditions on users. The starting point is the law on standard business terms, under which a contractual clause significantly deviating from the respective statutory regulation is void. Likewise, a clause which is surprising can be invalidated. The assessment is based **\*I.P.Q. 29** on the statutory classification of the type of contract in question, which may be a contract for the purchase of software, a rental contract or a contract *sui generis*. In turn, the ability of users bound under such agreement to make certain uses depends on the character



of the commercial transaction in question. As noted, the approach taken in relation to the GPL is, conversely, based solely on the notion of a copyright licence. And to complicate things further, Art.31 may likewise impact on purely contractual relationships and thus additionally restrict the scope of restraining clauses. In conclusion, software agreements are therefore not usually based on copyright licences. The permission to use a program will, on the contrary, be inherent in the underlying contract: for instance, the validity of a contractual clause that prohibits the user to redistribute the software or simply to sell a copy in standard business terms is first and foremost dependent upon the type of contract and would, irrespective of copyright protection, be found to be invalid in cases where the software was purchased. In short, whether copyright can be employed in order to enforce terms depends on a number of factors, rather than on the isolated issue whether or not a licence was granted.

### III. Unfair contract terms, software contracts and the *conditio subsequens*

The decisions, however, indicate that the initial previous transaction--the assignment of a non-exclusive use right--is subject to the licensee complying with terms and conditions even where these go beyond copyright. The qualification of No.4 GPL as *conditio subsequens* denotes that the copyright-owner may impose restrictive clauses, the compliance with which will decide whether the acquirer may make future uses.

In relation to copyright, this position means that any acquirer of copyright is at the risk of infringing if a clause going beyond Art.31(1) is found to be a valid standard contractual term. In case a licensee was permitted to grant sub-licences, such sub-licensees will arguably lose any right to use the software because the sub-licence can no longer be supported by a right *in rem*. The problem evoked under German law in this respect concerns the interaction between the (attempted) transfer of proprietary use rights (Art.31 CA) and the user's contractual position.

#### 1. The *conditio subsequens*: a tool for enforcing licensing conditions?

If generalised, the *conditio subsequens* formula may therefore be widely used by software copyright-owners to enforce unrestrictedly contractual conditions of use. In the decisions, the view was taken that Art.158(2) of the Civil Code is applicable as a condition of *contractual* compliance. The first licensee's rights thus terminate once the attempt is made to exploit the software commercially contrary to that condition. Once a "bare" licensing model is accepted, the licensor cannot, with effect *in rem*, transfer any rights for future uses. The copyright-owner may not only impose certain conditions upon subsequent acquirers even where these exceed copyright protection; any condition not complied with but valid as far as unfair standard contract terms are concerned is eligible to enable copyright-owners to control the way in which software is being used, since in case of non-compliance the user will infringe copyright. If interpreted extensively, and applied to commercial software agreements, it may cause a sweeping change in the way in which software is exploited. Whether a clause is unreasonable can no longer be differentiated by taking recourse to the purpose of the underlying software contract. The wide-ranging notion evoked by the term "copyright licence" potentially *\*I.P.Q. 30* excludes further considerations. Deliberations such as specific commercial realities, the purpose of the underlying contract and the degree to which such disadvantage must be taken into account will arguably become obsolete. The result is oversimplification. Even in the case of mass software, the rights and obligations no longer depend on a general model of a purchase or rental contract, and hence judicial control of restrictive licences must become more lenient.

Whether such a bleak expectation is warranted is not certain. First, the effect of the *conditio subsequens* approach upon the assessment of clauses in software contracts remains uncertain. An over-spill effect may be avoided if the *conditio subsequens* clause itself can be avoided, thus leaving courts the ability to assess the merits of restrictive clauses under the traditional approaches. Under such a broad interpretation, copyright-owners may terminate the agreement *ex nunc*, irrespective of whether the restrictions imposed a restriction in such agreement would normally be held valid.<sup>59</sup> If the licensee is a consumer, the *conditio subsequens* approach would imply that he carries the risk of the invalidity of contractual terms,<sup>60</sup> since if he fails to comply he would--for the subsequent period in time--infringe copyright, a result contradictory to the consumer protection aim underlying the law on standard business terms. It would also spoil a closer inspection of contractual clauses that are not covered by exclusive rights under copyright, which conflicts with the general position to review standard business terms in accordance with the typical rights and obligations arising from the specific contract.<sup>61</sup>

## 2. Traditional risk allocation and subjective compliance

The approach is similarly difficult to reconcile with a more qualified reading of Art.158(2). Admittedly, many commentators had previously asserted that a copyright licence may be subject to a reservation of title, coupled with an automatic termination of rights<sup>62</sup> in contracts for the commercial exploitation of works. It therefore seems acceptable to allow the same as regards the GPL.<sup>63</sup> However, the traditional perception of Art.158(2) confirms that the resolution of the contract must result from an event that was objectively uncertain for both parties at the time the contract was entered into,<sup>64</sup> a perception that balances the risk between both parties. In the one case concerning a reservation of title in copyright contract law, it was held that a copyright-owner was able **\*I.P.Q. 31** to re-acquire rights granted under a licence in case the licensee went into insolvency.<sup>65</sup> This singular decision concerns but one aspect of copyright contract law and, in the case decided, allowed the licensor some degree of protection as regards retention of their title. The notion of an automatic termination of rights in case the licensee does not comply with the rules imposed by the licensor is a different matter. It depends on whether subjective factors should be considered as falling within the remit of the *conditio subsequens* provision at all.<sup>66</sup> It should also be noted that Art.158 of the Civil Code predominantly deals with freely negotiated bilateral contracts, rather than the inclusion of a termination clause in standard business terms.<sup>67</sup>

## 3. Article 158 BGB and general licensing chains

Finally, because the copyright-owner may achieve compliance with contractual terms via a conditional copyright license, Art.158 would have effect on any sub-licence. Even if the licensee was permitted to sub-licence, the sub-licensees' position would depend on the first licensee's contractual compliance. Once the original licence is terminated, subsequent acquirers retain use rights if they adhere to the GPL. Third parties not bound under the GPL will, then, arguably have to surrender their rights. The continuous ability to use software that had been modified depends on the capacity to permit uses otherwise infringing copyright.<sup>68</sup> Under Art.34, the transfer of copyright is subject to consent by the original author, i.e. the author has the exclusive right to (continue to) authorise sub-licences. If Art.158(2) operates in the way envisaged, that consent no longer exists, thus eradicating any rights previously granted further down the licensing chain. Article 158(2), therefore, has an indirect effect *in rem* because it eradicates the initial contractual agreement, thus eradicating the *causa* for any subsequent licence agreements.

The concerns outlined above follow from the fact that the case law does not exhibit any material distinction between commercial and open source licensing agreements, and that therefore the principles--in particular as regards the *conditio subsequens* approach--can be construed as general principles applicable to all forms of copyright contracts. Again, this failure is attributable to the wide-ranging implication of a "licensing" agreement on the one hand and the absence of any attempt to define and categorise open source agreements<sup>69</sup> as discrete and distinct from commercial licensing contracts.

### **\*I.P.Q. 32 IV. Conclusion: co-existence between OSS and commercial contracts under the *conditio subsequens* formula**

One may live with a broad notion of Art.158 as long as the boundaries are clearly demarcated. The courts had, as noted, no reason to do so for there was no need to protect any outsider.<sup>70</sup> As long as no substantive detriment can be shown, there is no reason why the bare licensing concept should not be taken advantage of, and similarly the *conditio subsequens* formula may be invoked to transmute the reservation of title clause foreseen under No.4 GPL into a gripping dogmatic construction resembling existing contract law. From the perspective of less conceptualising legal systems, it may even seem odd to observe these difficulties. Why should it be so arduous to enforce OSL for their undisputed benefits? A qualification as a discreet open source contract<sup>71</sup> would have helped to avoid the consequential characterisations whilst leaving intact the traditional rules on commercial software agreements. Thus, devising a limiting formula would lend legitimacy to the digression from standard principles. It would also have clarified the position as regards the enforceability under the law on standard terms of business.<sup>72</sup>

Therefore, a sensible distinction should be drawn on the basis of querying the general compatibility of a *conditio subsequens* with guiding principles of copyright contract law. Substantive restrictions are permissible to the effect that they concern autonomous and uniform modes of exploitation. If a contract entails a stipulation exceeding that requirement, that clause will be void, but that effect would

have practical consequences only where the contract is made subject to a reservation of title with effect *in rem*. If the contract is subject to a *conditio subsequens* that renders its continued existence subject to the licensee complying with terms that would otherwise have been void, the issue becomes one of the compatibility of these restrictions. An act violating a *void* condition cannot, at the same time, render the contract terminated under Art.158 (2) Civil Code, for there is nothing left to violate. Again, that result is only reasonable once it is accepted that establishing the validity of restrictive clauses under general principles of copyright contract law (i.e. within the confines of Art.31) is a necessary precondition for establishing whether a breach has occurred that allows the automatic reversal of rights. It appears that the oversight of that conflict resulted in elliptical decisions.<sup>73</sup>

Where restrictions are found valid, therefore, the question remains whether the stipulation of a *conditio subsequens* is compatible with general copyright contract law. This is a matter of detecting whether, if such clauses will become standard, there are **\*I.P.Q. 33** significant detriments to the guiding principles of market transparency.<sup>74</sup> As far as the review of standard business terms is concerned, the same result--as regards consumer contracts--will necessarily ensue because the general principles under Art.31 apply to both commercial and consumer contracts. The applicability of Art.31 as a precondition for Art.158 to operate also reduces the need to operate with the more spurious connotations underlying the provisions on unfair business terms. Thus, even where both the *conditio subsequens* and additional clauses are considered not to contravene general principles of copyright contract, the provision on unfair contract terms will necessarily continue to apply as regards all clauses and, in addition, the combined effect of these clauses.

Certainly, devising specific rules applicable to specific areas is a necessity, especially in the fast-changing world of technology and, more precisely, as regards the proliferation of network contracts. However, can the underlying copyleft notion survive in spheres where copyright is not used as a mechanism to facilitate sharing but where it must be employed to block outsiders? Hence, how does the copyleft idea fare when confronted with situations where normative principles limiting copyright for the public benefit clash with the need to utilise copyright in order to prevent the software from passing into the commercial arena?

#### **D. The outer limits of open source licensing: market transparency, exhaustion and lawful-user rights**

As was discussed in the previous sections, open source networks must operate so as to exclude those who do not adhere to its conditions. Problematically, the extent to which the restrictions are permissible, from the perspective of traditional software contract law, remains unresolved. This affects cases concerning the acquisition of modified version of OSS by third parties under a commercial agreement.

Copyright law protects both the general public and the individual user through the doctrine of exhaustion and, respectively, the lawful-acquirer provision. The extent of this protection is decisive for the success of open source systems, as both provisions operate for the benefit of those not bound by the viral contract. Open source models must rely, however, on a resilient ability to control the use and further development of the software by outsiders, and for this to be accomplished the reliance on a copyright licence is insufficient. The reason is not so much the fact that bona fide purchasers may use software acquired from a vendor in breach of the GPL as such; however, the commercial incentive to distribute software subject to the GPL would be greatly reduced if it could be accomplished that no rights of third parties arose under such transactions. From a commercial point of view, whether OSS is appropriated will remain a matter of cost factors. The prime reason deterring from a commercial distribution in such **\*I.P.Q. 34** cases is the risk of (monetary) liability as against purchasers or licensees, which in turn depends upon whether commercial vendors of OSS need consent in order to permit third parties the use of such software.<sup>75</sup> That problem arises, furthermore, only where the software has been modified by a recipient originally bound under the GPL,<sup>76</sup> as otherwise a bona fide acquirer can effortlessly re-acquire the same software under the GPL terms. In addition, the GPL can only affect modifications of the original software the exploitation of which constitutes an infringement. It cannot encompass instances where the copyright in the original GPL software was not appropriated. What needs to be taken in order to infringe, therefore, is a part resembling the creative originality, which may then be classified as either a reproduction or an adaptation. If the part taken is not protectable, or if the modification reaches the level of a new work for which the original software only served as inspiration,<sup>77</sup> the problems discussed below are irrelevant.

The following examines the extent to which traditional software may permit an initial restriction on third-party uses. As noted, the exhaustion doctrine and the lawful-user provision operate so as to give

third parties rights to use and redistribute the software in question. Hypothetically, there is nothing in the law that expressly prohibits a copyright-owner from exercising his right so as to prevent acts of redistribution. The right to control the distribution can only be limited once exhaustion has occurred, that is, following the act of putting the work into circulation for the first time and with the rights-owner's consent. Hence, once consent is absent<sup>78</sup> as a matter of a valid contractual licensing agreement, the act of putting the work into circulation would not merely breach the agreement with effect *in personam*, but would concurrently allow control *in rem* vis-à-vis third parties. In addition, a prohibition to redistribute will prevent any acquisition of use rights by third parties; in order to transfer use rights, a licensee must prove the owners' consent (Art.34).<sup>79</sup> Exhaustion of the distribution rights is--arguably--a precondition for attaining the status of a lawful user.<sup>80</sup> It follows that if the effects of exhaustion can be avoided, the principle aim of open source models can effortlessly be accomplished.

German courts are, however, rather cautious about attempts by licensors to control distribution chains. As far as an effect *in rem* is concerned, the restriction must comply with Art.31, both as regards restrictions of product and geographical markets. A subdivision of rights must comply with the standards traditionally set under Art.31 in order to have effect *in rem*. In scenarios where third-party rights are affected, the **\*I.P.Q. 35** open source community will, therefore, have to rely on the uniform application of the traditional norms.<sup>81</sup>

In general, the proper scope of permissible constraints and enforceable conditions depends on a number of interacting legal doctrines. The first step in the following examination concerns the question to which degree the traditional approaches permit general restrictions with effect *in rem*. Here, the central problem lies in the inherent conflict between permissible restrictions affecting market transparency and the conditions imposed under the GPL, which in effect was remedied by employing the *conditio subsequens* formula. The second, and related stage in the analysis then concerns the lawful-user provisions and its complex formulation and intricate interaction with the exhaustion rule. This will demonstrate that OSL will remain cannot affect, at least where "grey areas" are concerned, the operation of mandatory rules limiting proprietary rights.

The fundamental distinction between proprietary and contractual restrictions may offer the opportunity for open source systems to achieve a somewhat more rigid binding effect. If the OSS licensing system can be classified as entailing immediate contracts, i.e. a network of direct contracts, it appears that more restrictive terms can be imposed without violating norms that predominantly aim to limit the exercise of copyright. In general, a contract pertaining to the use of protected works is governed by freedom of contract. The parties are, of course, initially at liberty to enter into any agreement even if this would exceed the limits set under copyright law. The copyright-owner may reserve to himself certain exclusive rights which are within the ambit of the proprietary rights afforded under copyright law and impose conditions going beyond the proprietary scope of copyright, unless they constitute inadmissible terms and conditions.

This would resonate with the overall structure of open source models, where the "viral" or network contract approach suggests that the contract is entered into between the acquirer and the open source community, rather than constituting a vertical chain of licences. Hence, even in cases where OSL are deemed to violate the exhaustion rule, it may be asserted that contractual freedom prevails. If so, the way is easily paved for assuming a general prohibition on relicensing if this is done in violation of the GPL, and it will likewise follow that the acquirer who was bound under the GPL will face contractual damages.

But yet again, the problem arises that the contractual restriction may have an adverse impact on the market in cases where further licence agreements, excluding the GPL, have been entered into. This indirect and potential impact of restrictions *in personam* can be subjected to a further control under both the law on standard business terms, but also under Art.31. Article 31 may, in addition to restricting subdivisions of rights with effect *in rem*, also operate so as to invalidate a contractual clause that has a similar effect. If so, the remaining question as regards OSL is whether the *conditio subsequens* formula provides a workable alternative solution that can be generalised without adverse effects on conventional software contract law.

### **\*I.P.Q. 36 I. Subdivisibility in rem, Article 31: divisions of the "product" market in traditional copyright law**

Copyright law permits, in general, the subdivision of rights. Such division will have the effect to bind third parties *in rem*, Art.31. As noted, however, the freedom to impose such wide-ranging restrictions

is limited.<sup>82</sup>

From an OSS perspective, it is highly desirable to subdivide the exclusive rights with effect *in rem*. It is only here that control over acts of further distribution outside the network can be fully exercised. The legal instrument to achieve this is initially to limit the scope of rights granted, which in the case of the GPL translates as a prohibition to distribute the software in the absence of the GPL.

Article 31 asserts that, if the copyright-owner wishes to reserve certain markets, such reservation is generally permissible.<sup>83</sup> Hence, a copyright-owner may impose restrictions on a licensee, and those restrictions may have an effect *in rem* because the licensee only acquires a certain aspect that had been singled out from the general bundle of exclusive rights.<sup>84</sup> For instance, a copyright-owner may grant one separate licence for the distribution and manufacture of books in paperback and another for hardback copies.<sup>85</sup> The reason why such subdivision of transfers of rights is permissible lies in the distinguishable modalities of exploitation that concern separable and different markets. The respective licensees can neither sub-license those aspects that have not been licensed, nor can they market the work in those markets that have been reserved. Once it can be asserted that a substantive restriction passes the “distinctive market” test under Art.31, the ensuing question concerns the effect on the exhaustion rule.

The judicial response to attempts to subdivide product markets can be threefold: a provision may be enforceable with effect *in rem*, provided that--from the viewpoint of the need to preserve market transparency--it would only affect a clearly distinguishable and separable modality of exploitation, that is, a distinct market or distribution channel.<sup>86</sup> If this is the case, the act of putting the work into circulation outside that market does not, according to the Federal Court of Justice, cause the distribution right to be exhausted.<sup>87</sup> Exhaustion can only occur within the boundaries of the enforceable restrictions imposed. Here, the copyright-owner maintains full control of any act of distribution<sup>88</sup>; exhaustion only occurs as regards the market for which the licensor has permission. The second potential response is to preserve the contractual limitation with **\*I.P.Q. 37** effect *in personam* only. Here, third parties cannot be bound *in rem* because the act of putting the work into circulation will exhaust the right. This preserves the general policy objective of maintaining market transparency but simultaneously allows the licensor to enforce contractual rights against the licensee. The third potential solution concerns the enforceability of the contractual restriction with effect *in personam*. As noted, contractual clauses may be invalidated if they appear unduly disadvantageous.

### 1. Open source: the impact of the “OEM” decision

In the *OEM* decision,<sup>89</sup> the BGH had to address the question whether the copyright-owner in software can avoid the effects of exhaustion by limiting the right to distribute the software further by singling out separate markets for different versions. The licence in question prohibited the licensee from selling updates of the original software outside a specified distribution chain, such as to non-specialised vendors. The contract also foresaw that new versions should only be distributed with a newly purchased computer. The BGH found that this restriction was in conflict with the exhaustion rule. The court rejected the argument that the copyright-owner could do so. It pointed out that the contractual restriction, aimed at preserving different distribution channels, would have adverse effects on the need to protect market transparency. Therefore, if such adverse effect can be alleged, the attempt to eliminate exhaustion with effect *in rem* will fail.

Some commentators have observed that the decision is inherently inconsistent with Art.31, which indeed preserves the right to limit licences with effect *in rem*.<sup>90</sup> Under a literal interpretation of Art.31, the sole question arising is whether a certain modality of use is sufficiently distinct. If so, the subdivision of rights is enforceable as a matter of copyright, not contract law. Therefore, once the limb is passed, the rights afforded to copyright-owners prevail. There is, from a commercial point of view, not much to be gained if an acceptable limitation that has effect *in rem* is subsequently curtailed through the application of market transparency considerations. Apparently, the court introduced a more wide-ranging limitation that has no foundation in statutory law.<sup>91</sup> The court, thus, extended the need to preserve market transparency above and beyond instances in which restrictions on the exclusive rights licensed were in conformity with the notion of a distinguishable modality of use. If this perception is rejected, any restriction that fulfills the distinct market requirement will necessarily have the effect to exclude exhaustion, simply because the licensee then cannot rely on the initial consent **\*I.P.Q. 38** to distribute the licensed works in markets not covered under the licensing agreement. As regards open source licensing models, the position taken by the BGH will put judicial assessment on a straight track towards a rather speculative balancing test under which market transparency concerns must evidently prevail. In essence, therefore, the open source model cannot rely on the

ability to subdivide markets with effect *in rem* as far as users outside the network would be affected. The first reason is that the implicit restrictions do not concern a distinguishable marketing modality in accordance with Art.31, and that therefore the limitations concerning redistribution can only have, if at all, effect *in personam*. The second--and, in relation to OSL--much more important consideration involves the question whether, as a matter of more general principles of copyright law, the exhaustion rule should prevail as a generalised model that, as a result of proportionality considerations, may eliminate the statutory ability of dividing exclusive rights.<sup>92</sup>

## **2. Contractual restrictions: direct marketing and “viral contracts”**

The importance of the distinction between permissible restrictions under Art.31 and their binding effect on open source models cannot be overemphasised. The decision was concerned with *in rem* effects, not with the freedom to contract. Indeed, as the BGH itself pointed out, Art.31 is not concerned with the immediate contractual relationship and therefore leaves considerable freedom to bind the immediate contractual partner.

In general, however, courts view an unlimited prohibition on software users to distribute very critically, and in the absence of considerable commercial reasons for such restriction any clause thus limiting user rights will be held to violate Art.307 of the Civil Code. At this juncture, courts have argued that the unreasonable deviation from statutory law does not merely concern the respective contract, but must also take into account the indirect effects on the exhaustion principle.<sup>93</sup> In short, a standard contract for the purchase of software containing such a clause would be held unenforceable. The prohibition not to redistribute constitutes, from the viewpoint of the purchaser, a surprising clause precisely because the exhaustion principle usually safeguards that ability, but also because the acquisition of software as the object of a contract of purchase normally raises the expectation to freely hand out the object purchased. In general, therefore, restrictions on redistribution are not permitted as standard business clauses.<sup>94</sup>

Whether the same can be concluded for OSL is subject to debate. As noted, the GPL does not prohibit the redistribution but encourages it, subject to the further condition that the GPL is attached. The courts clearly did not perceive the clause to constitute a problem as regards the position of the immediate acquirer. At the contractual level, therefore, such clause will be in compliance with the law on standard business terms **\*I.P.Q. 39** provided that it is not surprising as regards the ability to redistribute.<sup>95</sup> This will not normally be the case--once the licensing conditions have been noted, it seems difficult to argue that the constriction imposed under No.4 GPL will be surprising, since such conclusion can only be drawn once the modalities and the type of contractual agreement are clarified. In contrast to the purchase of software, the open source licensing model is not based on the acquisition of property; there is, likewise, no exchange that could support an expectation of the user to enjoy fully a proprietary position. In conclusion, the condition under No.4 GPL cannot be considered as unduly disadvantageous.

This, in turn, appears conveniently to tie in with the notion of a viral contract. As noted, the effects of Art.31 might be avoided by a characterisation of the OSL that relies on the underlying notion of a viral contract, whereby the obligations arise *vis-à-vis* the open source community as a distinct entity. The construction of a “direct marketing” model, under which each acquisition of the work creates a new contract, has a further consequence that appears highly attractive from an open source network perspective. Since there is no “vertical” distribution chain, each individual act of acquiring the work would take place under an immediate contractual agreement. That agreement may, as noted, exclude the occurrence of exhaustion because the copyright-owner can still control the conditions under which the work is put into circulation. If those conditions, as under the GPL, provide for certain modalities of how the work must be redistributed, the necessary consent as required under the exhaustion principle is absent. Each new act of distribution therefore infringes copyright. That “direct marketing model” would, thus, resonate extremely well with the overall aim of the GPL. According to No.6 GPL, the acquirer does not contract with the immediate predecessor in a chain of title<sup>96</sup>; rather, the licensing agreement is to be concluded between the “owners” of copyright and any acquirer.<sup>97</sup> The clause as such is enforceable because, in general, the owner would likewise have the right not to consent to any sub-licensing.<sup>98</sup> This notion of a new agreement concluded each time a program is accepted under the GPL may have indirect effects on the position of third-party acquirers, and, more immediately, on the control over commercial forms of exploitation. In short, it depends on whether that model is transferable to German licensing concepts. The central assertion here is that the model of an immediate contract has effects on anyone as a contractual stipulation that, if valid,<sup>99</sup> can restrict the occurrence of exhaustion. Hence, if an acquirer sells software subject to the GPL, the contractual

restriction effects that this sale was undertaken without consent and therefore there was no placing on the market. This means that because no exhaustion occurred, the bona fide acquirer cannot redistribute for lack of exhaustion; **\*I.P.Q. 40** and because it may be argued that the lawful-user provisions follow the exhaustion principles, that approach may even have the desired effect (from the viewpoint of the OSS community) to prevent the bona fide from attaining the lawful-user status.

The BGH indicated that a contractual restriction preventing a licensee from reselling can be enforceable in contract; and that therefore a model contractually binding the acquirer would automatically prevent the occurrence of exhaustion for lack of consent. However, such restriction aiming at preventing the occurrence of exhaustion is subject to further considerations that relate, fundamentally, to the purpose of the exhaustion rule and the scope to which restrictions in a licence can prevent the occurrence of exhaustion. In general, the current jurisprudence on exhaustion tends to prefer market freedom,<sup>100</sup> which, according to the Federal Court of Justice now critically appears to develop into a general limitation rather than a restriction on the distribution right.<sup>101</sup> Thereby, the scope to which subdivided exploitation rights impact upon the occurrence of exhaustion is eradicated when colliding with principles of market transparency, which in turn denotes a shift of the exhaustion doctrine towards an overarching legal principle.<sup>102</sup> The previous case law concerning the effect of licensing restrictions held, admittedly, that a program copyright-owner may--even with effect *in rem*--bind his contractors so as only to permit sales to certain groups of customers<sup>103</sup> or under certain preconditions. In a similar manner, courts have persistently invalidated standard clauses which seek to disallow a licensee to redistribute the software. The reason was both the inconsistency with copyright principles, in particular the attempt to rule out the exhaustion rule, as well as with principles of contract law.<sup>104</sup>

The viral contract model supports and, to a large extent, provides the necessary scope for general restrictions under the *conditio subsequens* formula in general. It allows the conclusion that, in cases where an agreement pertaining to some use of software is entered into, the licensor can impose certain obligations that the licensee must comply with, lest he will automatically lose his rights. Because the relationship between the first licensor and subsequent licensees is consciously based on the overarching notion of freedom of contract, the enforceability of the *conditio subsequens* formula is then simply a matter of asking whether norms restricting contractual freedom may interfere. These norms are, in general, based on the aim to safeguard the position of the weaker partner but leave little scope for public policy considerations. Hence, following the direct marketing approach, judicial control in most cases would be curtailed: the only option for reviewing licensing conditions is the law on standard business terms, a set of norms dedicated to regaining the commercial equilibrium in cases of unequal bargaining powers.<sup>105</sup> In essence, therefore, the application of the "direct marketing" **\*I.P.Q. 41** model allows commercial software vendors to impose restrictions on purchasers by way of entering into immediate agreements, and to maintain control over the use of copyrighted works through an automatic reversal of rights. It should be noted that this is not a result of the decisions concerning OSS as such; it is a consequence of assuming an unlimited ability to contract immediately with users and thus to rely on freedom of contract. And although a court may well find that certain obligations imposed on users are potentially void under standard business terms law, there remains very little scope to avoid the broader implications of freedom of contract once a direct marketing model is accepted.

Therefore, an overarching perception of a "direct marketing" solution must be rejected. A closer inspection would effortlessly reveal that in many cases--and in particular cases where software is acquired through downloading rather than purchased on a carrier--it is a construct that is based upon the fictitious perception that contractual obligations cannot have an adverse effect on public policy considerations. This is misguided. The ability to utilise copyright as a means to separate product markets will remain a critical issue, and the adverse effects of such separation cannot be resolved by subsisting mandatory norms under copyright with more free-wheeling perceptions of contractual freedom. The operation of a "viral" contract law may have more or less identical effects as the application of conditions that would, under copyright law, not pass the hurdles set by Art.31. In turn, this denotes that contractual restrictions must be subjected to the same test as proprietary restrictions under Art.31. As far as OSL are concerned, it also follows that a deviation from both statutory rules and additional public policy concerns cannot be agreed to as long as there is a need to protect legal positions outside the network.

This does not necessarily preclude the perception of a viral contract but would increase the scope of judicial control above and beyond norms under the law of obligations. However, it would mean that if "viral" contracts allow the circumvention of mandatory rules via contract law, the rationale underlying those rules must be put in the equation. The extent to which such conflict must be recognised is,

largely, a matter of defining the legitimate expectations typically protected as part of the exhaustion doctrine.

### 3. OSS licences and legitimate market expectations

Article 31, thus, presents a manifest obstacle. As noted, according to the recent jurisprudence of the BGH, Art.31 implies a test including two limbs. The BGH first asks whether a restrictive clause is generally compatible with the requirements of a clear and separate mode of exploitation, and, if so, conducts a more overarching public policy test that, even if the first limb is passed, may further preclude any *in rem* effect as far as the exhaustion rule is concerned.

As to the first limb, the open source decisions have, unfortunately, shied away from a closer inspection of the interplay between the conditions under the GPL and the general purpose underlying the restrictions imposed on the subdivisibility of rights by the BGH. As noted, the general rule for a restriction with *in rem* effect is that the division of rights relates to a distinguishable modality of use, a test the GPL does not pass.

However, it is not entirely certain that the BGH would apply the same rigid standards based on the aim of preserving the marketability of commercial software to OSL. It may, indeed, be argued that Art.31 has the sole function of protecting commercial *\*I.P.Q. 42* licensees down a commercial licensing chain. The function of the limits imposed on proprietary restrictions thus may be perceived as protecting the ability to market protected works *commercially*. Restrictions *in rem*, therefore, must be consistent with the legitimate expectations of derivative licensees, in accordance with the terms of the initial contractual permission that forms the basis of their respective sub-licences. In turn, Art.31 then protects future licensees from infringing copyright and preserves legitimate expectations in the ability to use the software as is stipulated under their contract. This purpose differs fundamentally from the potential expectation that acquirers of OSL will usually have. In this regard, it is not entirely certain whether the standard reference used by the BGH to market freedom is envisaged to protect typical licensing chains or whether it is aimed at protecting any type of circulation, commercial or not, after the point of first alienation.

Provided that the first limb is passed in that sense, it may be argued that the advantages of free acquisition of OSS outweigh the disadvantages that are created by proprietary restrictions, and consequentially public policy considerations play a much less prominent role. The central question is to assess precisely why a third-party acquirer of OSS, who had acquired the software under a commercial agreement and in good faith, should have a legitimate expectation not to be restricted in using it as implied in the commercial agreement. Hence, if it is correct to assume that Art.31 predominantly or solely protects expectations of those who trade in copyrighted goods, it is likewise acceptable to enter into a test based on more general proportionality considerations. Indeed, as far as the acquisition of a piece of open software that is freely available is concerned, Art.31 cannot operate at all because, as noted, the licensee can reacquire the identical object.<sup>106</sup> Article 31 will only operate in cases where the object is not or no longer freely available, that is, in cases where the software contains elements of protected expression that can be traced back to an original software initially subject to the GPL, or in cases where the software constitutes a modified version adapted to specific needs of a particular user. In this case, it becomes difficult to argue that such "good faith" in the acquisition of the software should not deserve legal protection. A need to protect such acquirer must, overall, be based on their legitimate expectations to do what they were permitted to do under the contract.

There is no uniform answer as to how these expectations should be construed; what is certain, however, is that a restriction *in rem* must not necessarily fail the first limb of the test under Art.31 solely because the restriction appears to be too indifferent as to modes of exploitation; it may likewise be argued that Art.31 can, due to the absence of an initial licence with a commercial character, should only, if at all, be applicable by way of analogy. The principle conflict that arises at this stage does not concern the way in which copyright-owners separate market, but the question whether and to what extent the underlying purpose of Art.31 enables the law to provide a rationale and sound balancing of different interests. The outcome of such balancing test *may* then be either to give an overall preference to the undisputable legislative will to foster the development of open source and open access models in general, or to give preference *\*I.P.Q. 43* to an acquirer in good faith as regards the origin of software obtained by way of a commercial transaction, as may be derived from Art.31.

A third possibility may, depending on the circumstances, result in the construction of individual and more differentiated cases, i.e. under a balancing test that is open at the outset.<sup>107</sup> In order to approach



such a balancing test, the respective legitimate interests in each of the two segments must first be accurately circumscribed. Here, much speaks in favour of giving preference to enforcing GPL licences vis-à-vis the legitimate expectations of good-faith acquirers.

First, Art.31 itself clearly privileges subdivided licences, and thus initially the degree to which the legitimate interests of third parties must be afforded protection is comparatively limited. Secondly, what is it that may precisely affect the legal position? As noted, a legitimate expectation to rely on the contractual permission only arises in cases concerning modified software, that is, software that through a violation of contractual terms has in some way absconded the open source network. This leaves, accordingly, only on legitimate position. The acquirer, first, is not restricted as far as the sheer use of the software is concerned. As will be seen, this is a result of the mandatory lawful-user provisions. Even if, however, the lawful-user provision would not interfere in such cases, the acquirer would still be able to rely on contractual claims against the immediate vendor.

Within the scope of Art.31(1), the GPL may, additionally, be nevertheless characterised as a uniform mode of “exploitation”, in the sense that it displays distinguishing and individual features of exchange and rights granted.<sup>108</sup> As far as identifying such individual character is concerned, opinions are, however, divided. The general view asserts that the conditions for a subdivision are not met.<sup>109</sup> Conversely, there are persuasive arguments to characterise the GPL--as a model fundamentally opposed to commercial licences with which Art.31 is predominantly concerned--as a permissible restriction of copyright contracts; open source licensing structures have, at least, initiated separable new markets clearly distinct from commercial software markets.<sup>110</sup> However, whether this would allow the open source model to avoid the traditional limits under Art.31 is doubtful.

It was also noted that a second criterion for assessing whether a certain mode of exploitation is not met. This appears a more cumbersome predicament to enforcing *\*I.P.Q. 44* Art.31(1): according to established jurisprudence, the modes of exploitation must be complimentary and thus mutually exclusive.<sup>111</sup> This is fundamentally not the case because OSS does not differ from commercial software in appearance, and assuming two distinct “open source” and commercial market therefore seems to contradict that fundamental distinction. Software is either commercially exploited or not, and therefore the “markets” cannot be complementary--OSL thus merely substitute commercial exploitation. The distribution of OSS therefore is not a complementary form of exploitation but is intended as a substitute.<sup>112</sup>

Further, and in contrast to the general purpose of Art.31 to protect the entire distribution chain by limiting the ability to subdivide licences, the acquirer of OSS cannot rely on the overall protection that is afforded to the chain of derivative transactions under Art.31. If the general aim to support and foster open source models is taken into account, the fact that the software is initially distributed freely must allow for a wider margin of *in rem* restrictions. Finally, the subjective element that is inherent in the test based on legitimate expectations must be considered. It appears difficult to argue in favour of such legitimacy the more the use of open software will become reality, and commercial software developers will have to account for negligently not verifying the legal status of software acquired. In conclusion, there may be at least a presumption for favouring the GPL as against the expectations of acquirers.

## II. Conclusion: the GPL and substantive limitations

In conclusion, a perhaps more elegant solution to enforcing the GPL could have been established through a firm examination of the differences between the GPL and the degree of protection afforded under Art.31 to commercial licensing *chains*, a venture that would have had the added benefit of demarcating the boundaries between commercial licences and open source models. Here, the lack of a differentiation and the dangers inherent in the *conditio subsequens* formula become apparent: a clear demarcation line drawn from within the context of the limits traditionally imposed on subdivided licences, coupled with a solid and unswerving reliance on legislative goals and inherent advantages would have helped in avoiding many of the problems caused by the extensive application of the *conditio subsequens* formula and the underlying shift of power to copyright-owners outside the realms of legitimate subdivisions.

Whether such presumption can account for a general principle according to which open source restrictions are compatible with Art.31 remains, however, open. The reason is that the BGH, as noted, relies not only on the legitimate expectations in a licensing chain. The fact that the BGH, despite maintaining that the restrictive terms were enforceable as a matter of contract, rejected the argument that the clauses had the effect of binding third parties *in rem*. The court apparently considered the

restriction not merely under the “distinguishable mode of exploitation test, but additionally scrutinised the overall effect of excluding exhaustion from the viewpoint of the general aims underlying the exhaustion principle. It concluded that, although the clause would have passed the *\*I.P.Q. 45* first limb of the test under Art.31--i.e. the modalities of distributing different versions of a computer program under different conditions--arguably as permissible, but then pointed out that even so the exhaustion principle must prevail. From the perspective of open source developers, therefore, the issue of exhaustion presents a second potential limitation.

The difference lies in the question of who and what should be protected. Article 31, as noted above, limits the *in rem* effect to the interests of commercial licensees in a licensing chain. The exhaustion principle is much broader. Certainly, one of the interests safeguarded is the consumer market, and here the BGH remarked that the division into different modes of exploitation, albeit not being unduly restrictive from the viewpoint of those in the licensing chain, may lead to a totally non-transparent market, and that in turn the latter consideration gave rise to balancing the clause with the more general purposes of the exhaustion rule. The problems of the exhaustion rule will be discussed in a more general context below.

### **E. The scope for excluding exhaustion: open source and the general exhaustion doctrine**

Therefore, can open source developers, by utilising the reservation of title clause under No.4 GPL, prevent the occurrence of exhaustion? Exhaustion occurs, according to Art.69c(3), once a computer program has been put on the market by or with consent of the owner. This means any act, including by sale or otherwise,<sup>113</sup> through which the copy of a work is put into circulation. “Putting into circulation”, following the standard formula as developed by the BGH, means any act through which the copy is disposed of and made accessible to the public.<sup>114</sup> The exhaustion rule, notwithstanding certain clear and commercially independent restrictions in scope or geographical coverage, is mandatory. It follows that a contractual clause that aims to uphold the right to control distribution cannot overrule the effects of exhaustion. As regards the specific meaning of “consent”, there is confidence that the term is to be construed objectively, denoting solely the initial consent necessary for putting the work into circulation.<sup>115</sup> It is, in addition, irrelevant whether a copy is distributed to a licensee or whether it is marketed directly<sup>116</sup>; the term exhaustion is broadly understood as referring to any act by which the copy in question is abandoned from the internal sphere. The only means by which to avoid the effects of exhaustion, thereby, are contractual restrictions on the immediate acquirer and the perpetuation of that restriction towards third-party acquirers.

As noted, exhaustion can be avoided under Art.31, yet only to the extent that the transparency of the market is not unduly affected. The issue becomes pertinent after the goods have been marketed for the first time, i.e. where an act of placing the article into *\*I.P.Q. 46* circulation has occurred. This will be the case anywhere in the distribution if the act is done by or with consent. Secondly, can the copyright-owner exclude exhaustion through clauses that have only effect *in personam*? If so, under a direct licensing model this would permit the open source community to re-enter continuously into individual agreements. Here, the question of both the *in rem* effect and the question of the control of further acts of distribution by a contractual prohibition to redistribute become important.

### **I. Exhaustion of modified programs**

As noted above, problems concerning the protection of third parties only arise as regards modified versions obtained under a commercial transaction. As regards the impact of the exhaustion principle, this denotes that once the original version of a piece of software for which the terms under the GPL had been agreed is modified, the question arises whether the effect of the exhaustion rule continues to apply to the modified version, or whether that version represents a different work subject to consent under the distribution right. As regards the original OSS, exhaustion will occur following any act by which the software is put into circulation with or by consent of the right-holder. The analysis of the intricate effects of the exhaustion doctrine thus must start with assessing the distribution chain from the first act of putting the software into circulation.

#### **1. Consent and conditional consent**

In general, the term “consent” must be construed objectively and only pertains to the act of selling or otherwise separating from the work. Thus, consent cannot be made subject to any condition. A condition imposed will, therefore, only have effect *in personam* provided; however, the clause is to be

held valid as a standard business term.<sup>117</sup> It follows that for exhaustion to occur at the first point of putting into circulation the existence of a condition limiting the scope of the “consent” is irrelevant.<sup>118</sup> As far as the original copy subject to the GPL is concerned, therefore, any act of further distribution can no longer be controlled on the basis of copyright.<sup>119</sup>

As regards subsequently modified programs, therefore, the GPL has no effect on the position of the acquirer of that version. Even though the subsequent acquirer will violate the term of the GPL, the reservation of title under No.4 in case of non-compliance has no further effects on the general ability to distribute the original version further. This effect may, however, be overcome under existing copyright law. Here, two streams of arguments may be invoked. It may, as noted above, be asserted that exhaustion should not apply in cases of lack of remuneration. However, this is easily flawed: although the *\*I.P.Q. 47* ability to recoup an initial investment is generally perceived as a rationale supporting the consumption of intellectual property rights in general, the tendency in German jurisprudence to recognise concerns of market transparency strongly indicates that an exclusion of exhaustion if the work is distributed without any claim for remuneration will be disregarded.

## 2. Exhaustion and adaptations

Secondly, one may assert that the consent expressed in relation to the original version does not affect the distribution of modified versions. If so, a result will ensue that is functionally equivalent to the direct-marketing model according to which each acquirer is contractually bound: the distribution of each modification of the original software is to be considered as a new act of distribution, which would significantly alleviate the need to consider the impact on the general market--there would simply be distinct markets for each version. In addition, the general exclusion of exhaustion arguably renders the position of lawful users inapplicable, thereby giving the open source model the opportunity to likewise prohibit the use of the modified program by users who have obtained the modified version from a commercial vendor.

Whether the effects of exhaustion affect subsequently modified versions of a program in this way is, therefore, a matter of general copyright law. From the statutory language and underlying dogmatics it appears to follow that the initial occurrence of exhaustion does not affect the modified version. The principle rule states that exhaustion only emerges as regards the original or a copy of the program. The owner of software copyright can, in general, prohibit both the making of an adaptation<sup>120</sup> and its exploitation through distribution; an adaptation, in turn, is defined as a work which adds to an existing work some creative quality, and therefore two distinct rights subsist, vested in both the original authors and the person creating the modification. Despite the fact that the rights are distinct, therefore, the author of the original work still has the exclusive right to authorise the exploitation of an adaptation, which necessarily includes the right to authorise the distribution of copies of that adaptation.<sup>121</sup> Consequently, the act of distributing a modified version would violate the rights of the open source community in the adaptation and must, arguably, be subject to consent. Thus, in cases where modified OSS is sold, this act does not exhaust the distribution right in the adaptation, and provided that exhaustion is considered a precondition for the lawful-user status, an acquirer, whether in good faith as to the origin of the software or not, would not be permitted to use the software purchased.

Nevertheless, whether the traditional dogmatic classification of “adaptations” can serve as a workable model for excluding the effects of exhaustion remains contentious. According to the BGH, the reason for the uncertainty--in contrast to the seemingly cogent dogmatics underlying the treatment of adaptations--lies in concerns over *\*I.P.Q. 48* market transparency,<sup>122</sup> and the bias towards an expansive scope of exhaustion as an overall preventive norm. This new-found quality of the exhaustion principle may, in future, impact on the law as regards adaptations in general, and may even be conducted with more rigour as regards computer programs. First, the jurisprudence on restrictions as regards limitations on product markets serves is clear in the sense that exhaustion will prevail even in cases where the constraint imposed upon licensees concern distinguishable markets, and therefore, in the *OEM* decision, the fact that the respective acts of selling a modified version to dealers outside the contractually agreed distribution channels had no effect on the occurrence of exhaustion. Secondly, exhaustion also prevails in cases where the original work is not as such modified, but presented in a different context.<sup>123</sup> If the version is modified to an extent reaching the quality of a work, allowing the author control rights over the distribution of the work thus adapted would appear contradictory and inconsistent: if exhaustion occurs with respect to a slightly different form of presentation, the same must be true in cases where the second author has extended creative efforts. In addition, the central, and most striking contention against the continued ability to prohibit

the further distribution of modified works in the case of software, concerns the entirely different character of software as opposed to traditional works of high authorship. First, it is extremely arduous to distinguish between software that was merely modified--and that would, accordingly, be subject to the rules on the traditional adaptation right--and software that was used in an inspirational manner in order to create an entirely novel work.<sup>124</sup> From the viewpoint of consumers, the distinction is naturally impossible to draw, which in turn would have adverse effects if that ambiguity was perpetuated. It follows that in such cases the general perception of the exhaustion rule may serve as a corrective in order to maintain the requisite market transparency.

### **3. Exhaustion in case of programs delivered online**

The problems mentioned would, naturally, be largely irrelevant in cases where the exhaustion rule would only pertain to copies of OSS distributed on physical carriers. Given that most OSS is initially offered for download, the question arises whether such act constitutes an act of distribution or whether offering software for download is an act of public making available to which exhaustion does not apply.

The question of online exhaustion in cases where programs are delivered to a customer online continue to be debated.<sup>125</sup> The problem is reflected in two recent conflicting *\*I.P.Q. 49* decisions concerning the resale of "used" software through the internet.<sup>126</sup> : The District Court of Hamburg permitted such resale--which was contractually prohibited--as it deemed that at the first point of sale exhaustion had occurred, and held that the further sale through online means constricted an act of distribution subject to exhaustion. The District Court of Munich reached the opposite conclusion. It held that--in line with Art.3(2) and Recital 29 of the Directive on Copyright and Related Rights in the Information Society--online sales do not cause exhaustion to occur. Unfortunately, both courts do not clarify in detail the rationale for their divergent approaches. The starting point of the debate is whether the act of making software available for download constitutes, as such, an act of "online" distribution and, if it does not, whether the exhaustion rule should be applicable by way of analogy if the online offer merely substitutes for a physical transaction. As regards the potential occurrence of exhaustion, therefore, two cases must be distinguished. First, offering software for download does, as such, not constitute an act which can exhaust the right to control further acts of distribution.<sup>127</sup> Exhaustion can only be assumed once the general prerequisites can be established, i.e. there must be consent as regards the act of putting into circulation. It is only in this case that exhaustion will occur on the basis of an application of Art.69c(3) by way of analogy. Whether such consent has been expressed or not may, in general, require a proper interpretation of the intended purpose: in many cases, the problem of exhaustion will not arise if the person downloading is merely permitted to make one copy of the program. If the software is "sold" or otherwise permanently disposed of online, however, consent will be implied from the contractual arrangement and other circumstances. If it is clear that the offer to download substitutes for an acquisition through a distribution channel, most commentators will prefer the view that similarly exhaustion occurs<sup>128</sup> because there are no substantial reasons for treating the commercial transactions differently.

The problem this poses for open source models is that here two aspects conflict. First OSS is intended to be distributed by whatever means. It is only that this "consent" is made subject to a further condition. As noted, however, consent is an objective concept and must not be made subject to any restrictive condition other than condition permissible under Art.31. Hence, given that the GPL expressly permits the distribution of the program, exhaustion might, arguably, prevail. If so, the rather important problem emerges whether acts of making the software available online is covered, or whether the effects of exhaustion must be confined to physical transactions.<sup>129</sup> If the exhaustion *\*I.P.Q. 50* rule is perceived as a means to rectify adversely impacting interferences of copyright-owners on the market, the solution will have to be found in determining whether the expectations in an online market are fundamentally different, especially given the fact that here direct contracts are usually entered into.

At this juncture, the deliberations as expressed in the *OEM* decision and the general applicability of the exhaustion rule in cases of online delivery conflict. One typical characteristic of online "sales" is the subsistence of an immediately binding contract. If the software "vendor", then, expressly stipulates that the acquirer is only permitted to copy the software for use on his machine, that restriction is likely to pass the general test under the law on standard business terms. As noted above, the *OEM* decision left the effects of contractual restrictions largely a matter of the parties' agreement, and as far as contractual restrictions are concerned, permitted that restrictions falling within the general limitations set under Art.31 may be imposed because they have no further external effect. Under a

contractual agreement, obligations that bypass the effect of exhaustion may then (solely) be invalidated under the law of standard business terms. The resultant position could well be that, following the overall structure of open source licensing models as a viral contract entered into between the open source “community” (rather than with the immediately preceding licensee) the obligations would be upheld as a matter of contract law. In this case, no “consent” for any further distribution can be established, and hence exhaustion would never occur. In essence, distribution online would constitute direct marketing, in which, according to the *OEM* decision, contractual restrictions prevail in general.<sup>130</sup> Hence, Art.31 is inapplicable because the restriction on redistribution under the GPL have no effect *in rem*.

This is a far-reaching proposition. Whether it is compelling is, first, a matter of determining the proper scope of contractual agreements that have as their object some immaterial transfer of copyrighted goods. The ensuing question must then concern the applicability and scope of (excluding) exhaustion as a matter of more general principles of market transparency. As noted, online delivery facilitates the substitution of a transfer of software in material form. In both cases, the underlying contract may be for the purchase (or other acquisition of property) if, for instance, the purchaser is expressly permitted to create a tangible copy, a commercial reality that differs from traditional forms of distribution only in the mode of transferring the object of the contract.

In addition, the Software Directive does not require Member States to surrender the effect of the exhaustion doctrine in such cases. Recital 29 of the Copyright Directive, controversially, states that the question of exhaustion does “not arise in the case of online-services”, and this “also applies with regard to a material copy of a work made by the user of such service with the consent of the right holder.” Of course, this may be taken to mean that as a matter of copyright law, exhaustion does not arise even in cases where the parties have entered into a contract for the sale where the purchaser creates the contractual object. If this is to be perceived as a wide-ranging principle, the enforceability of the GPL as against third parties would, to a considerable degree, be enhanced. Despite the apparently clear-cut exclusion of the exhaustion doctrine in cases *\*I.P.Q. 51* of online delivery, however, several observations should be made. First, the exclusion only concerns the broader issue of works that have been made available through an online service. It does not stipulate an obligation on Member States to regulate the purchase of works online in a different way. Secondly, the position as expressed in Recital 29 of the Copyright Directive rests upon the overall notion that exhaustion does not occur as regards services. It is, as such, debatable whether the meaning of “services” must include all contractual agreements that have as their object the transfer of property rights in copyrightable works. What may safely be deduced from Recital 29 is the sheer truth that exhaustion does not arise in the case of works accessed in an interactive way.<sup>131</sup> The provision remains, however, silent on the specific treatment of contractual agreements that have as their object the individual and singular transfer of a work, i.e. agreements where no repeatable right to access the service is concerned but where the object of the contract is transferred, for payment, in a digital form.<sup>132</sup> Hence, if such a mode of transaction merely appears as a substitute for what would otherwise require the acquisition of a physical object,<sup>133</sup> it may well be argued that a sale is present and that therefore exhaustion will occur,<sup>134</sup> provided that the statutory requirements for exhaustion are present. Typically, consent must be present, relating to the final abandonment of the copy by putting it into circulation. Of course, this is directly opposed to what the GPL envisages. The GPL permits redistribution but subject to certain conditions. However, as noted above, the meaning of consent as regards exhaustion is rather clear under German copyright law. The fact that the GPL expressly permits redistribution will likewise denote that exhaustion has occurred. It thus appears that the only avenue to prevent the occurrence of exhaustion is by way of enforcing the “direct licence” model under No.6 GPL,<sup>135</sup> according to which a direct contract is entered into. As already noted, if the first acquirer of a software licence breaches a contractual clause disallowing further acts of distribution, some protection is given but limited *inter pares*. As was observed above, the central counter-attack as regards the application of the direct-marketing model to viral contracts lies precisely in the resulting conflict between market transparency and contractual restrictions. If a viral contract doctrine functionally replaces the exhaustion rule as a proprietary concept applicable to traditional distribution chains, market concerns re-emerge, albeit in the context of contractual freedom<sup>136</sup> rather than proprietary subdivisions of copyright.

*\*I.P.Q. 52* Thus, even if the notion of direct contracts between the original author and each licensee is upheld, it remains to be explained why such unlimited contractual freedom should prevail over legitimate market expectations.<sup>137</sup> As far as the GPL is concerned, the sole “legitimate” interests, as mentioned, are those of bona fide acquirers of previously modified software, who had acquired the software for payment.

The issue raised at this juncture is whether the general public in fact has such expectations. In the case of online “distribution” of works, it may in future be effortlessly arguable that, with an accelerated proliferation of direct-contract models, consumer expectations may over time change.<sup>138</sup> Indeed, this may generally impose limits on the strength of arguments aimed at maintaining exhaustion. But here, the enforceability of the GPL will have to rely upon a reduction of consumer rights. Certainly, the complex question of exhaustion cannot be singled out in order to allow the proliferation of open source licensing models. The degree of control that may be exercised as regards “outsiders” can, therefore, be no different. It must follow the same rules as the general principles applicable to all works.

## II. The GPL and lawful-user rights, Article 69d

The final obstacle for full control of modified programs is presented under the obscure “lawful-user” provision: Art.69d(1) provides for certain minimum rights of lawful users of software.<sup>139</sup> Hence, typical uses that are necessary for the normal operation of a computer program cannot be contractually avoided. The provision implements Art.5(1) of the EC Directive on the Legal Protection of Computer Programs. Contractual provisions seeking to annul these privileges are void.<sup>140</sup> Article 69d preserves certain minimum use rights of lawful users but is subject to the condition that the parties have not agreed conditions to the contrary. The provision does not clarify how the status as lawful user is achieved. Although there is some consensus that Art.69d will operate so as to immediately render void any restrictions disallowing a lawful user certain typical *\*I.P.Q. 53* uses, such as the running of the program,<sup>141</sup> the problems under Art.69d(1) concern the unidentified issue of how the lawful-user status is acquired. In short, two fundamental positions exist, with many variations in detail.

From the open source perspective, the most convenient construction subsists in requiring that the lawful-user privileges are only afforded to persons who can prove an uninterrupted chain of licences.<sup>142</sup> Hence, Art.69d would only interfere provided that some contractual promise, be it from the copyright-owner or a licensee who had the power to sub-license can be established.<sup>143</sup> Even though exhaustion may have occurred, this would not affect the position as regards the licence to use the program<sup>144</sup>; here, a permission to make temporary copies would be required, and the reversal of rights foreseen under the GPL would have the desired effect to render any use following a violation of the GPL terms infringing.<sup>145</sup> This is refutable.

First, the “uninterrupted licensing chain” argument has a fundamental flaw. Especially in author's right systems, the existence of a permission to transfer or otherwise permit third parties the use of a work under copyright is by no means subject to the initial promise: the first licensee, in general, must be able to allow the continuous use of the program. Thus, once the initial licence between the author of the program and the first licences is terminated, the entire chain collapses, with the effect that subsequent acquirers cannot rely on promises given subsequent licensors.<sup>146</sup> Otherwise, any purchaser of standard software would have to rely on the continued operation of each of the preceding licences.

Secondly, the lawful-user provision plays an important role in defining the boundaries of software copyright law. The protection it affords alleviates the initial conflict that arose *\*I.P.Q. 54* out of the specific characteristic of software as subject-matter protected by copyright, rather than some form of *sui generis* rights. The seemingly extensive reproduction and adoption rights primarily serve so as to allow right-owners some control over multiple uses of one copy, a criterion that recognises the feature of software as subject-matter that is to be used rather than “enjoyed”. The Software Directive had to grant some use-right-style protection in order to allow such control that, in turn, allows multiple-use licences in order to recoup the investment,<sup>147</sup> but which inevitably conflicts with the fundamental copyright premise that the mere use of works is free.<sup>148</sup>

Thirdly, the lawful-user provision was inserted in order to alleviate the extensive reproduction right, which in the case of computer programs necessarily affects the ability to use the work. The history of the provision likewise indicates that the underlying motive was to protect the purchaser. The provision thus seeks to alleviate the contradiction that would ensue where a purchaser buys software but is eventually required to prove the existence of some consent to use. Hence, Art.69d will cover all instances where software had been purchased and the distribution right exhausted,<sup>149</sup> though this is only one, albeit the typical, example. What is necessary is, therefore, simply an act of acquisition of the carrier.<sup>150</sup> This is supported by the terminology used in the Software Directive, where the lawful *acquirer* of a copy is protected.<sup>151</sup> The same use-rights, it follows, would apply if the user cannot rely on a purchase or other acquisition of a data carrier.<sup>152</sup>

Although in such a case, as outlined above, exhaustion does not necessarily occur, it would lead to an absurd result if the copyright-owner could, in a direct marketing model, withhold those minimum rights or subject the creation of such rights to certain **\*I.P.Q. 55** conditions. As soon as a standard contract is present, the minimum rights arise.<sup>153</sup> Therefore, as far as typical acts of reproduction are concerned, the lawful-user provision will operate regardless of contractual stipulations to the contrary, whether these are inserted by way of a direct licence, by way of terms and conditions accompanying a purchased carrier or as part of a software-use agreement in the absence of a purchase or other acquisition of a tangible software carrier. From the perspective of open source licensing models, this means that a contractual reservation of title,<sup>154</sup> affecting a lawful user will be void as a matter of Art.69d, and in turn the bona fides acquirer of OSS can ask for the same degree of protection. Hence, Art.69d(1) constitutes a limitation on copyright that cannot be contracted out.<sup>155</sup> The program copyright-owner, in this case, cannot rely on the reservation of title clause envisaged under No.4 GPL; the rights accrue automatically because Art.5(1) seeks to ensure a minimum level of consumer protection.<sup>156</sup>

As regards the acquisition of software under the GPL, Art.69d(1) thus only protects a bona fide acquirer if it is accepted that the licensor must be able to grant those rights under copyright. However, this is irreconcilable with the motives underlying the lawful-user provision. In general, a contract agreed with a licensor who had breached the GPL is enforceable. Since Art.69d(1) arguably grants the minimum rights to use the software irrespective of the position of the vendor, a bona fide acquirer will likewise be protected under the lawful-user clause, which practically limits the enforceability of the GPL significantly, amplified if the act of selling a modified version to an "outsider" is considered to exhaust the distribution right.

## F. Summary and general conclusion

In conclusion, the enforceability of the conditions stipulated in the GPL depends on the respective degree of protection that is afforded to copyright as a proprietary control right. The (almost ironic) conclusion that can be drawn concerns the ability to refute the intrusion of standard norms limiting copyright for more general concerns, such as the public policy sentiments implicit in the (German) comprehension of the exhaustion rule, and the more specific protection afforded to individual consumers and licensees on the basis of the lawful-user provision. The central issue, therefore, is whether the spheres--commercial and non-commercial distribution and development of software--can co-exist, and if so, what the legislative preconditions for such co-existence should be.

The approach taken in order to achieve the desired policy objective--enforcing the GPL--has severe ramifications and conflicts with the highly differentiated interplay between contractual and copyright norms in software contract law. To summarise, the **\*I.P.Q. 56** *conditio subsequens* formula, coupled with an overarching notion of a licence as the object of the contract, creates severe difficulties predominantly because the courts relied upon the fact that in the cases at hand there was indeed no need to protect outsiders. The necessary binding effect on third-party acquirers is eradicated due to the requirements of transparency of copyright licensing agreements, and the alternative solution according to the *conditio subsequens* may have unwarranted consequences as regards the extensive increase of rights to reserve title in standard commercial agreements. In this regard, the German distinction between the licence and the underlying obligation may prove fatal for open source models in general because the restriction in the underlying contract cannot have effect on any person outside the open source model.<sup>157</sup> The restrictions cannot extend to any subsequent bona fide purchaser. Hence, if neither the *conditio subsequens* approach nor a binding effect *in rem* can be established, the bona fide purchaser acquires--according to the general principle underpinning copyright licensing law--the rights granted to the first acquirer in full. And although this does not simultaneously imply a right to sub-license,<sup>158</sup> the subsequent acquirer may then use the software within the constraints of Art.69d(1).<sup>159</sup> In turn, the absence of a need to consider the position of those who are not members of the community paved the way for combining statutory norms and notions of direct licences into a concoction of legal rules that sustains and supports the respective finding. One effect--at least hypothetically--is an indiscriminate interpretation of the decisions as generalised and applicable to commercial contracts, a result that was certainly not intended. The key to resolving the conflicts generally thus must lie in elaborating feasible differentiations. The passing references to the political intention to foster open source models is, in this regard, certainly insufficient to clearly demarcate boundaries.

The potentially detrimental impact of an over-generalisation of open source licensing models on doctrines that aim balance between copyright and contractual freedom cannot be easily avoided. OS

must adhere to existing legal frameworks that permit a certain level of exclusion. The colliding interests between consumers and copyright-owners have, at least as far as standard software sales are concerned, been resolved through a complex application of contractual interpretation and recognition of consumer rights (that is, under the law on standard business terms) as well as by more overarching copyright principles, such as the exhaustion doctrine, the limitations to the subdivisibility of exploitations rights and general concerns of market transparency. *\*I.P.Q. 57* The problem is not so much the immediate collision between, for instance, provisions aiming to ensure consumer protection and open source contracts as such; the real problems begin where the licensing structure is conceptualised and rendered applicable in cases of commercial software transactions. The reliance of open source models on copyright--that is, ultimately, a binding effect *in rem* provoked through the operation of No.6 GPL--can effortlessly be utilised by any commercial software vendor because the courts did not elaborate persuasive distinctions between open source models and commercial software transactions. As far as the application and operation of existing legal rules is concerned, it appears likely that the express intention to enforce the GPL resulted in an inattentive selection of suitable principles, in particular the *conditio subsequens* concept. What is missing is a debate on the ensuing operation of that legal combination, a combination that is hardly reconcilable with neither existing and established precedent nor statutory concepts. The absence of such discussion, almost ironically, ultimately renders open source systems incompatible with rules aiming to ensure market freedom and accessibility of information.

The future of open source licensing structures will have to take these underlying collisions into account, and that cannot be based on a random and impulsive selection of statutory provision, the added effect of which is to accomplish the desired (policy) result. The term collision, as understood here, should be given a wide meaning.<sup>160</sup> It reflects a collision between inclusion and exclusion--and thereby a conflict between systems of which only one--the ability to enter into bilateral commercial software agreements--is reflected in law. Much will depend on how the interrelationships within an open source community can be characterised, and then how conflict rules can be formulated on that basis. One starting point certainly is to recognise open source models as networks that are built upon an ethos of sharing--a characterisation that, of course, lies at the heart of the open source idea. How this should be translated into law is a different matter. The structure of open source systems very much reflects, through the network (or viral) concept, a perception that approximates corporate structures, or a structure that is based on the proliferation of OSS (and other informational works) as a discrete and novel form of an immaterial good. In this case, substantive distinctions can be elaborated that will effect a sound separation between two different types of rules, albeit--at this time--under the common framework of contract and copyright law. The proliferation of open access systems in general can be rendered enforceable, on its own merits, through an approach that can borrow from insights found in the dichotomy between characterisation and applicable collision clause as developed in private international law systems.

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1. District Court of Munich I, 21 O 6123/04, May 19, 2004, *In re Welte v Fortinet UK Ltd* (text in English available at [http://www.oii.ox.ac.uk/resources/feedback/OIIFB\\_GPL2\\_20040903.pdf](http://www.oii.ox.ac.uk/resources/feedback/OIIFB_GPL2_20040903.pdf) ; [accessed January 6, 2008]) District Court of Munich I, *In re Welte v Sitecom Deutschland GmbH*, December 4, 2005, 21 O 7240/05; District Court of Frankfurt am Main, *In re Welte v D-Link Deutschland GmbH*, September 22, 2006, 2-6 O 224/06; District Court of Berlin, 16 O 134/06, February 21, 2006 *In re Wireless LAN Software*; District Court of Munich I, 705245/07, July 24, 2007, *In re Voice over IP Telephone*. All decisions concerned interim relief. See further, J. Höppner, "The GPL Prevails: an Analysis of the First-ever Court Decision on the Validity and Effectivity of the GPL" [2004] SCRIPT-ed 628, <http://www.law.ed.ac.uk/ahrc/script-ed/issue4/GPL-case.asp>. For robust criticism, see T. Hoeren, "The First-ever Ruling on the Legal Validity of the GPL--a Critique of the Case" [http://www.oii.ox.ac.uk/resources/feedback/OIIFB\\_GPL3\\_20040903.pdf](http://www.oii.ox.ac.uk/resources/feedback/OIIFB_GPL3_20040903.pdf) [accessed January 6, 2008].
  2. District Court of Munich I, *In re Welte v Sitecom Deutschland GmbH*, December 4, 2005, 21 O 7240/05, para.19 (referring to the political will to foster the development of open source structures).
  3. See below, para.1.D17.
  4. See para.1.E.II.
  5. The article will deal primarily with No.4 and No.6 of the GPL, version 2, as the basis for the decision to be discussed. By now, the new (third) version was published, see GNU GENERAL PUBLIC LICENSE, Version 3, June 29, 2007, <http://fsf.org/> [accessed January 6, 2008]. The article only deals with fundamental principles of open source licensing not affected by the new version.
  6. cf. No.4 GPL: "You may not copy, modify, sublicense, or distribute the program except as expressly provided under this license. Any attempt otherwise to copy, modify ... is void, and automatically terminate your rights under this license."
  7. The bare licensing concept, as will be discussed, was translated by German courts into the *conditio subsequens* formula creating much the same outcome. See below, 06 *et seq.*



8. Therefore, the GPL does not articulate a waiver of enforcing copyright; see F.A. Koch, *Computervertragsrecht*, para.2106.
9. See, generally, V. Grassmuck, *Freie Software zwischen Privat- und Gemeineigentum*, p.219.
10. On the economic benefits of the innovation process associated with open source models, see R.C. Allen, "Collective Invention" [1983] *Journal of Economic Behaviour and Organization* 1; N. Economides, "Network Externalities, Complementarities, and Invitations to Enter" [1996] *European Journal of Political Economy* 211.
11. See GPL, No.4.
12. J. Wacha, "Taking the Case: Is the GPL Enforceable?" [2005] 21 Santa Clara Computer & High Tech L.J. 451; K. Goettsch, "SCO Group v IBM: the Future of OSS" [2003] Univ. Illinois J.L. Techn. and Policy 581; L. Mahony and E. Naughton, "Open Software Monetized: Out of the Bazaar and into Big Business" [2004] 21 The Computer and Internet Lawyer 1 at 4; D. McGowan, "Legal Implications of Open-Source Software" [2001] University of Illinois L.Rev. 241; R. Nimmer, "Coexisting with Free and OSS" [2006] C.R.I. 129; J. Zittrain, "Normative Principles for Evaluating Free and Proprietary Software" [2004] 71 Univ. Chi. L.Rev. 265.
13. See E. Moglen, "Enforcing the GNU GPL", <http://www.gnu.org/philosophy/enforcing-gpl.html> [accessed January 8, 2008].
14. The debate in the US seems to indicate a mutual exclusivity between licences and contract, see Rosen, *Open Source Licensing: Software Freedom and Intellectual Property*, p.51; P. Jones, "The GPL is a License, not a Contract", LWN.net, 3.12.2003, <http://lwn.net/Articles/61292/> [accessed January 6, 2008]; Free Software Foundation, "GNU General Public License: Discussion Draft 1 of Version 3", §9, 16.1.2006, <http://gplv3.fsf.org/gpl-draft-2006-01-16.html> [accessed January 6, 2008]; D. Rowland and A. Campbell, "Supply of Software: Copyright and Contract Issues" [2002] 10 Jnl. J.L. & Info. Techn. 23 at 26; A. Guadamuz, "Viral Contracts of Unenforceable Documents: Contractual Validity of Copyleft Licenses" [2004] E.I.P.R. 331.
15. R. Gomulkiewicz, "How Copyleft Uses License Rights to Succeed in the Open Source Software Revolution" 36 *Houston Law Review* 179.
16. But see Jason B. Wacha, "Taking the Case: is the GPL Enforceable" [2005] 21 Santa Clara Comp. & High Tech. L.J. 451.
17. L. Rosen, *Open Source Licensing: Software Freedom and Intellectual Property* (Upper Saddle River: Prentice Hall Publishers, 2004), p.33.
18. This assertion appears to be based--as far as software is concerned--on the decision in *MAI Systems Corp v Peak Computer* 991 F.2d 511, 518 (9th Cir. 1993), holding that loading a computer program into Random Access Memory entails the creation of a "copy" within the meaning of §106 US Copyright Act 1976.
19. See L. Rosen, *Open Source Licensing* (Upper Saddle River: Prentice Hall Publishers, 2004), pp.31-33.
20. See *Progress Software Corp v MySQL AB* 2002 US Dist. LEXIS 5757 (describing the GPL as containing "enforceable and binding licenses"); *Planetary Motion Inc v Techsplosiv Inc* 261 F 3d 1188, 1198 (11th Circ. 2001); *Wallace v Free Software Foundation* 2005 US Dist LEXIS 31728 (establishing that the GPL constituted a "vertical licensing agreement").
21. See Dreier and Schulze, *Urheberrechtsgesetz, Kommentar*, §32 annotation 80-81.
22. See G. Schricker, "Zum neuen deutschen Urhebervertragsrecht" [2002] GRUR Int. 797 at 809.
23. See, in particular, District Court of Munich I, *In re Welte v Sitecom Deutschland GmbH*, December 4, 2005, 21 O 7240/05.
24. The most recent amendments to the German Copyright Act 1965--the "second basket" was passed in the Bundestag on July 5, 2007. The amendments contain new and specific provisions aimed at safeguarding open source licenses. These do not affect the issues discussed here. See Bundestags-Drucksache 16/1828.
25. It is currently envisaged to proceed to yet another copyright reform (the third basket) which will evaluate, specifically, the copyright implications as regards digital technology (in particular, the adaptation of transmission rights) as well as science and educational issues. This may entail further detailed provisions concerning open source and similar licensing models. At present, a recommendation by the Legal Committee of the Bundestag has been published that requires the Ministry of Justice to pursue these issues further, see Bundestags-Drucksache 16/5939, July 4, 2007.
26. For a description of the factual background see <http://news.zdnet.com/2100-3513-5198117.html> [accessed January 6, 2008].
27. The court also briefly mentioned that the GPL, since it contained contractual conditions in a standard form that cannot be modified by the addressee, generally fell into the ambit of the law on standard business terms according to Arts 305 *et seq.* German Civil Code.
28. Art.307(1) states, in full: "Provisions in standard business terms are invalid if, contrary to the requirement of good faith, they place the contractual partner of the user at an unreasonable disadvantage. An unreasonable disadvantage may also result from the fact that the provision is not clear and comprehensible." (Translation from the German Law Archive, <http://www.iuscomp.org/gla/> [accessed January 6, 2008]).
29. Art.307(2) German Civil Code: "2) An unreasonable disadvantage is, in case of doubt, to be assumed to exist if a provision: is not compatible with essential principles of the statutory provision from which it deviates, or ... 1) limits essential rights or duties inherent in the nature of the contract to such an extent that attainment of the purpose of the contract is jeopardised."
30. GPL, No.4.
31. The limitations on subdividing rights under Art.31 are not specified in the Act but a creation of case law. Article 31 provides that "The author may grant another the right to use the work for all or for particular modalities of use (use right). The use right may be granted as a non-exclusive or exclusive right and may also be limited geographically, in time or substance." (own translation)
32. *In re OEM - Version* [2001] GRUR 151 at 153 (BGH).
33. No.2 GPL, V.2, provides: "You may convey covered works to others for the sole purpose of having them make modifications exclusively for you, or provide you with facilities for running those works, provided that you comply with the terms of this License in conveying all material for which you do not control copyright. Those thus making or running the covered works for you must do so exclusively on your behalf, under your direction and control, on terms that prohibit them from making any copies of your copyrighted material outside their relationship with you. Conveying under any other circumstances is permitted solely under the conditions stated below. Sublicensing is not allowed; section 10 makes it unnecessary."
34. The court relied on scholarly writing: Metzger and Jäger, "Open Source und deutsches Urheberrecht" [1999] GRUR Int. 839; Omsels, "Open Source und das deutsche Vertrags- und Urheberrecht" in *Festschrift für Paul Hertin* p.141; Plaß, "Open Contents im deutschen Urheberrecht" [2002] GRUR 670.
35. *cf.* Art.69c(3) of the German Copyright Act. The problems of the exhaustion rule are discussed below at 1.E.
36. "The contract is invalid if one party would suffer unreasonable hardship if he were bound by the contract even after the amendment

provided for in subsection (2) above.”

37. LG Munich, *In re Welte v Sitecom*, December 4, 2005, 21 O 7240/05, para.4.
38. No.4 GPL. See OLG Munich, *In re “Brother of the Wind”*, May 17, 1979 [1981] 90 UFITA 166.
39. “If a legal transaction is entered into subject to a condition subsequent, the effect of the legal transaction ends when the condition is satisfied; at this moment the previous legal situation is restored.” Translation taken from [http://bundesrecht.juris.de/englisch\\_bgb/englisch\\_bgb.html#Section“158](http://bundesrecht.juris.de/englisch_bgb/englisch_bgb.html#Section%20158) [accessed January 6, 2008].
40. For the *conditio subsequens* concept, see Spindler, *Rechtsfragen bei Open Source*, p.50; for a (restricted) copyright licence, see F.A. Koch, *Computervertragsrecht*, 6th edn (Freiburg, 2002), at No.2109.
41. See Schricker in: Schricker (ed.), *Urheberrecht, Kommentar*, §31 at No. 9.
42. Copyright Act Art.31(1).
43. See *In re Video Licence Agreement* [1996] GRUR 972 at 973 (BGH).
44. See District Court of Frankfurt, *In re Welte v D-Link Deutschland GmbH*, September 22, 2006, 2-6 O 224/06, para.21.
45. This article does not consider whether the conditions under the GPL are indeed compliant with the principles of the law on standard business terms. There are doubts as to this particularly as regards the inherent attempt to prevent the occurrence of exhaustion, as well the incorporation of the GPL as such if only provided in English.
46. See below, para.1.E.
47. See *OEM-Version* [2001] GRUR 151 at 154 (BGH).
48. The court expressly referred to Art.31(1). See above, para.1.A.III.
49. See Art.69c(3): “The right holder shall have the exclusive right to do or to authorize ... any form of distribution of the original of a computer program or of copies thereof, including rental. Where a copy of a computer program is put into circulation by way of sale on the territory of the European Communities or of another Contracting State of the Convention Concerning the European Economic Area with the consent of the right holder, the distribution right in respect of that copy shall be exhausted, with the exception of the rental right.”
50. Art.69d(1): “In the absence of specific contractual provisions, the acts referred to in items 1 and 2 of Article 69c shall not require authorization by the right holder where they are necessary for the use of the computer program by any person entitled to use a copy of the program in accordance with its intended purpose, including for error correction.” See further below, para.1.E.II.
51. See below, Pt D.
52. Hoeren, “The First-ever Ruling on the GPL” [http://www.oii.ox.ac.uk/resources/feedback/OIIFB\\_GPL3\\_20040903.pdf](http://www.oii.ox.ac.uk/resources/feedback/OIIFB_GPL3_20040903.pdf) [accessed January 6, 2008].
53. See, for a detailed discussion, below, para.1.D.I. Article 31(1) renders any restriction in a copyright contract void that goes beyond the modes of geographical or substantive subdivisions in a licensing agreement. It is immaterial whether or not the terms have effect *in rem*. Article 31 draws a distinction between simple and exclusive rights. In the case of simple licences (i.e. licences not intended to give the acquirer a proprietary status) the legal nature as proprietary rights is debated. The issue is of concern as regards whether third parties can be bound with effect *in rem*.
54. *In re Heiligenhof* [1959] GRUR 200 at 202 (BGH). *In re OEM Version* [2001] GRUR 153 at 155 (BGH).
55. See GPL, No.10.
56. II, pp.32 *et seq.*
57. For a view favouring a “bare” software licensing see R. Hilty, “Der Softwarevertrag--ein Blick in die Zukunft. Konsequenzen der trägerlosen Nutzung und des patentrechtlichen Schutzes von Software” [2003] M.M.R. 3.
58. Art.69d renders any such clause aiming to prevent the user from doing what is necessary void, on which see further, para.1.E.II.
59. For instance, copyright-owners may extend controlover the sheer use of software (i.e. the modalities and times software may be run on a computer) despite the fact that copyright law does not protect against the mere use of a work, see *In re Operating Program* [1991] 449 at 453 (BGH); Mannheim District Court [1999] C.R. 360 at 361; U. Loewenheim in G. Schricker (ed.), *Urheberrecht*, annotation 9 to Art.69c, p.1359.
60. According to Art.307(2) of the Civil Code, the risk of uncertainties as regards the validity of contractual terms are borne by the person using standard terms.
61. For instance, a clause is more likely to be held to disadvantage a consumer unduly if the underlying contract concerns, as is the case in the vast majority of agreements relating to standard software, a purchase, whereas restrictive clauses in contracts for rental or lease may be viewed more favourably.
62. For which see, T. Jaeger and A. Metzger, *OSS* (Munich, 2003), p.38; T Deike, “Open Source Software: IPR-Fragen und Einordnung ins deutsche Rechtssystem” [2003] C.R. 9 at 16.
63. See G. Schricker in: G. Schricker (ed.), *Urheberrecht*, vor §§28 *et seq.*, annotation 45, p.592; Munich Superior District Court, *In re “Brother of the Wind”*, May 17, 1979 [1981] 90 UFITA 166 (asserting that a contract relating to a transfer of rights under copyright may be made subject to an objective *conditio subsequens*).
64. S. Koos, in *LexisNexis-Kommentar zum BGB*, §307 at No.4.
65. Munich Superior District Court, *In re “Brother of the Wind”*, May 17, 1979, 6 U 2622/78, in 90 [1981] UFITA 166 at 168.
66. In which case many questions would have to be raised on potential conflicts with issues such as contractual liability or consumer protection, which would drastically exceed the scope of this article.
67. In addition, the user of software would thus bear, contrary to Art.310 of the Civil Code, the risk of invalidity by losing his licence.
68. The question whether the sheer loading and operation of a computer program under Arts69c and 4a of the Software Directive remains debated. Most commentators agree that RAM copies constitute infringing copies. See Loewenheim in Schricker, *Urheberrecht, Kommentar*, Art.69cN.9;Marly, *Softwareüberlassungsverträge*, N.152. The GPL asserts that the act of running the program is not restricted (GPL, No.0(2)), but of course only where the GPL is still binding.
69. The Munich courts set forth the aim to give effect to legislative intention that OSS licensing systems should be recognised, as evidenced

under the new "Linux" clause, yet that is more sentiment than a true elaboration of distinguishing features.

70. See the next paragraph.
71. No such problems seem to exist in other jurisdictions, see L. Guibault and O. van Dalen, *Unravelling the Myth of Open Source Licenses*, p.61.
72. The statutory rules on the respective type of contract defines the scope to which an aberration is permissible (Art.305(1) of the Civil Code). Whether open source licences resemble statutory types of contracts, and if so, which, is widely debated. The argument is relevant particularly as far as the enforceability of standard business terms is concerned. Depending on the way in which the software is acquired, some commentators prefer a contract for a gift. The acquisition of OSS as part of a pre-existing commercial product may constitute a purchasing contract.
73. As noted, only the court in Frankfurt saw the problem.
74. Which once again highlights the fundamental distinction between commercial and open source contracts. The general overspill effect of open source contracts is relatively low as far as the need for protecting commercial markets is concerned. At least in professional circles the existence of open source contracts is, of course, widely known and accepted.
75. The party in breach of the condition not to commercially exploit may face claims for damages from the (joint) owners of the software subject to the GPL. If the violating party has entered into a contract that requires the transfer of exclusive rights, the inability to provide such rights would then render the contract frustrated.
76. Hence, where the software constitutes a "derivative work" under No.4 GPL. However, German copyright law does not recognise a general derivative work concept.
77. The distinction between an adaptation of software and a "free use" (Art.24) is difficult to draw and, in essence, a matter for an expert witness.
78. "Consent", under the doctrine of exhaustion, is a strictly objective concept. It refers to any act by which the copy is physically alienated.
79. See G. Schricker in Schricker (ed.), *Urheberrecht*, §34, annotation 2.
80. For a discussion on the lawful-user provision see below, para.1.E.II.
81. It should be recalled that this stage in the legal assessment will only be reached once the restrictions under the GPL are held enforceable under Art.31(1). If not, the problem does not emerge.
82. Some decisions have even taken the view that *in rem* restrictions are not permitted because the provisions on software copyright were considered *lege specialis*. Therefore, the copyright-owner could only subdivide licences as far as the rental right under Art.69c(3)(2) is concerned. See OLG Frankfurt [1999] C.R. 7 at 8.
83. *In re Rental of Disks* [1986] GRUR 736 at 737 (BGH); *In re OEM -Version* [2001] GRUR 153 (BGH). See further, Loewenheim in G Schricker, *Urheberrecht*, 3rd edn (2006), §17, fn.48.
84. See H. Schack, *Urheber- und Urhebervertragsrecht* 3rd edn (2006), No.541.
85. *In re Heiligenhof* [1959] GRUR 200 at 202 (BGH).
86. *In re Heiligenhof* [1959] GRUR 200 at 201 (BGH).
87. *In re OEM -Version* [2001] GRUR 153 at 155, (BGH), *Perfume Bottle* [2001] GRUR 51 (BGH).
88. Some decisions have even expressed the view that the exhaustion principle must prevail even in cases where the right assigned was initially limited. Here, a restriction may have effect *in rem* as regards, for instance, public performance rights but cannot affect the mandatory occurrence of exhaustion. See Frankfurt Superior District Court [1999] ZUM-RD 182 at 185, *Updates*; Hamm Superior District Court [1981] GRUR 783 at 784, *Video Tapes*.
89. The facts are as follows: Microsoft distributes its operating system and programs by way of two different distribution chains. The programs are sold individually to the end consumer and, in addition, so-called OEM-versions together with new PCs. The versions distributed with a new PC are much cheaper. For the programs intended to be sold with a new PC, Microsoft uses so-called authorised replicators in Germany to manufacture the programs and distribute the software to authorised wholesalers. The licence states, inter alia, that the programs must only be distributed, provided the acquirer is bound by Microsoft's licensing terms. These foresee an obligation only to distribute the OEM versions with a new PC. One wholesaler who acquired such programs sold versions individually to end-consumers.
90. See Grützmacher in Wandtke and Bullinger, *Praxiskommentar zum Urheberrecht*, Art.69c, fn.23.
91. See Wandtke and Grunert in Wandtke and Bullinger, *Praxiskommentar zum Urheberrecht*, §31 annotation 26; G. Schricker, "Bemerkungen zur Erschöpfung des Urheberrechts" in Ganea *et al.*, *Urheberrecht Gestern--Heute--Morgen, Festschrift für Adolf Dietz zum 65. Geburtstag*, pp.446, 448.
92. This was expressed in *Perfume Bottle* BGH [2001] GRUR 51. This was, however, a borderline case in which the attempt was made to take advantage of copyright protection where trade mark rights in the shape of a perfume bottle no longer subsisted. Whether the notion of an overriding public interest in market transparency can effortlessly be applied to "classic" copyright licences is therefore an issue that is to be approached with caution.
93. Chrocziel, "OEM-Version" [2000] C.R. 738.
94. BGHZ Vol.102, pp.135, 141; OLG Bremen [1997] W.R.P. 573 at 576.
95. It is likewise accepted that a deviation from the general rule is tolerable in case where there are substantial motives, such as in the case of test versions (where there is an enhanced danger of liability), see *In re Test Version* OLG Düsseldorf [1998] M.M.R. 417.
96. In order to give effect to the construct under No.6 GPL, it is argued that the recipient of OSS acts as conveyor for the entire "open source community"; the contract will then be entered into between the recipient and all previous owners. See Spindler, *Rechtsfragen bei Open Source*, p.99.
97. For the position in the US, see Rosen, *Open Source Licensing*, p.73.
98. See Frankfurt Superior District Court, June 25, 1996, 11 U 4/96 [1996] N.J.W.-RR 494.
99. Here, the question of enforceability thus concerns freedom of contract only. Whether a restriction with effect *in personam* is enforceable depends on the validity of the contractual clause limiting the exercise of copyright, which in turn is subject to the law on standard business terms.

100. See *In re Perfume Bottle* [2001] GRUR 51 (BGH).
101. See G. Schricker, "Bemerkungen zur Erschöpfung im Urheberrecht" in P. Ganea, C. Heath and G. Schricker, *Urheberrecht Gestern--Heute--Morgen, Festschrift für Adolf Dietz* (Munich: C.H. Beck, 2003), pp.446, 448.
102. For a discussion of the exhaustion doctrine in European and domestic laws, see. G Westkamp, "Intellectual Property, Competition Rules and the Emerging Internal Market: Some Thoughts on the European Exhaustion Doctrine" 11 [2007] 2 Marquette Intellectual Property L.R. 291.
103. [*n re OEM - Version* [2001] GRUR 153 at 155 (BGH).
104. See Grützmaker in Wandtke and Bullinger, *Praxiskommentar zum Urheberrecht*, Art.69c N.39.
105. The option to review contractual clauses in software licensing agreements under cartel law will not be further examined here.
106. In turn, this means that (under the circumstances described) a violation of the GPL by the licensor or vendor of software that was previously subject to its conditions would not give the acquirer a claim for damages.
107. It may perhaps be assumed that this is what the courts had in mind when applying the *conditio subsequens* provision. As noted, the conflict as regards Art.31 was only addressed by the District Court of Frankfurt, which cursorily concluded that the inherent conditions for a proprietary subdivision under Art.31 were not met. Given the clear circumstances and the absence of the need to consider any legitimate third-party interests, this appears to be acceptable.
108. See *In re Validity of CPU Clauses* [2003] N.J.W. 2014 at 2015 (BGH).
109. See *In re Welte v D-Link Deutschland GmbH*, September 22, 2006, 2-6 O 224/06, LG Frankfurt, in which the court expressed some doubt as to whether No.4 GPL was consistent with Art.31(1) CA: "The [GPL] obligations do not constitute a valid limitation of the right to use under Section 31 (1), second sentence, since the possibility to subdivide into different forms of use requires a sufficiently distinguishable, commercially and technically identifiable and autonomous form of exploitation, to be evaluated from the point of view of the relevant public." The court relied on the decision of the BGH in *In re OEM Version* [2001] GRUR 153 at 154. See further, Spindler in Spindler (ed.), *Rechtsfragen bei Open Source*, p.47.
110. F.A. Koch, "Urheber- und kartellrechtliche Aspekte der Nutzung von Open-Source-Software" [2002] C.R. 333 at 335.
111. See *In re Paperback Licence*, I ZR 165/89 [1992] GRUR 310 (BGH). The BGH asserted that a copyright-owner was able to subdivide the right of distribution into both a market for paperback books and hardback books on the ground that these markets concerned mutually exclusive markets.
112. Spindler in Spindler (ed.), *Rechtsfragen bei Open Source*, p.49.
113. See Vinck in Fromm and Nordemann, *Urheberrechtsgesetz, Kommentar*, Art.69c N.6.
114. See *In re Individual Offer* [1991] GRUR 316 at 317 (BGH); the provision is not subject to the right-holder receiving compensation, see *In re Sound Recording Licensing Agreement* [1986] GRUR 736 (BGH); *In re Video Licensing Agreement* [1987] GRUR 37 at 38 (BGH).
115. *In re Individual Offer* [1991] GRUR 316 (BGH).
116. For the uncertainties under UK copyright law, see Philips and Bently, "Copyright Issues: The Mysteries of Section 18" [1999] E.I.P.R. 133.
117. On which see the following paragraph.
118. See Loewenheim in Schricker, *Urheberrecht, Kommentar*, Art.17 N.23.
119. As pointed out above, control may be exercised under a general "direct-marketing model" as a matter of the GPL binding each acquirer under a new contract. In the *OEM* decision, the BGH pointed out that if the licensee manufacturing the software had sold to a third party and not to another wholesaler licensed by Microsoft to sell on to the end-consumer market, there would have been no consent to distribute. The reason was that the copies were made by a licensed partner and that this partner's act of distribution was therefore subject to limited consent. That constellation is, however, unique because Microsoft had organised its supply by granting two different licences, under which the manufacturing licensee was only permitted to sell on to licensed wholesalers.
120. See Art.69c No.2; this is in contrast to Art.23, according to which the making of an adaptation is not within the exclusive rights.
121. The typical case under Art.23 concerns the exploitation of dramatised or translated literary works, in which case the author of the adapted or otherwise modified work has the right to authorise or prohibit both the publication and other exploitation.
122. See, generally, Wandtke and Grunert in Wandtke and Bullinger, *Praxiskommentar zum Urheberrecht 2 nd* edn (2006), §31 annotation 4, p.414.
123. See Berlin Superior District Court [2002] GRUR-RR 125 at 126, "*Greetings from Potsdam*", according to which the distribution of postcards under a licence simultaneously exhausts the right to prevent the use of the pictures on a souvenir box of chocolates. The Dutch Hoge Raad came to the opposite conclusion in the *Poortvliet* decision, in which the court asserted that exhaustion did not apply in a case where paintings originally put into circulation in calendars were later cut out and fixed to chipboard. The court thought that there was no consent and that the markets for both representations of the paintings were different. See Hoge Raad [1979] Ned. Jur. 412; see further, Spoor, Verkade and Visser, *Auteursrecht: Auteursrecht, Naburige Rechten en Datenbankenrecht 3 rd* edn (Deventer: 2005), §4.24, p.189.
124. Art.24 preserves the general ability to use published works for "free uses".
125. The problem is reflected in two recent conflicting decisions concerning the resale of "used" software through the internet: see District Court of Hamburg [2007] ZUM 159 and District Court of Munich [2006] C.R. 159. Both courts did not discuss the context between exhaustion and lawful-user rights. For a discussion, see T. Hoeren, "Der urheberrechtliche Erschöpfungsgrundsatz bei der Online-Übertragung von Computerprogrammen" [2006] C.R. 573 at 577.
126. District Court of Hamburg [2007] ZUM 159; District Court of Munich [2006] C.R. 159.
127. The act of "making available" software for download falls within the remits of the right of public display under Art.69c No.4.
128. See Hoeren in Möhring and Nicolini, *Urheberrechtsgesetz, Kommentar 2 nd* edn (1999), Art.69c, N.16; Grützmaker in Wandtke and Bullinger, *Praxiskommentar zum Urheberrecht 2 nd* edn (2006), Art.69c, N.36.
129. This intricate question should not be further scrutinised here. See Berger, "Urheberrechtliche Erschöpfungslehre und digitale Informationstechnologie" [2002] GRUR 198 at 200 (asserting that, once exhaustion has occurred, this should likewise allow a subsequent making or other electronic transmission of works available of works).
130. Spindler, *Rechtsfragen bei Open Source*, p.98.

131. See Art.3(3) of the Copyright Directive, following the introduction of the making available rights under Art.8 WIPO Copyright Treaty and Art.10 WIPO Performances and Phonograms Treaty.
132. In that sense, the transfer of a computer program is equivalent to the transfer of physical things and would, accordingly, not be characterised as a service.
133. For the position in the US see §109 Copyright Act 1976; *Softman Products Co Ltd v Adobe Systems Inc* No.CV 00-04161 (C.D. Cal.), October 22, 2001; Samuelson, "Copyrights' Fair Use Doctrine and Digital Data" 37 [1991] 12 *Communications of the ACM* 21; D. Rice, "Licensing the Use of Computer Program Copies and the Copyright First Sale Doctrine" [1990] 30 *Jur.J.* 157.
134. Loewenheim in Schricker, *Urheberrecht, Kommentar*, Art.69c, N.33; Dreier and Schulze, *Urheberrechtsgesetz, Kommentar*, Art.69c, N.24; according to Berger [1997] N.J.W. 300, exhaustion would even permit the acquirer to further distribute works online. For the position under Art.4(d) of the Computer Program Directive, see Blocher in Walter, *Europäisches Urheberrecht*, p.174.
135. See, however, the reservations expressed above on the general strength of that argument, above, para.1.D.I.2.
136. It should be reiterated that the BGH has taken, obiter dicta, the view that contractual restrictions are in general possible; however, it should be noted that the case concerned a licence agreement between Microsoft and a commercial software distributor, rather than the position of consumers. A contractual clause disallowing users to re-distribute software will, in general, be found unacceptable for deviating both from the principle of exhaustion and general contract law. See, for instance, OLG Frankfurt/Main.
137. One avenue to explain the exclusion of exhaustion in the case of open source licences is to rely on a different rationale, that is, the fact that the rights are free of charge. However, although the incentive or reward doctrine played an important role with respect to the exhaustion doctrine as developed by the European Court of Justice, it is by no means an option that can overcome the market freedom considerations as expressed by the BGH. It appears certain that the BGH has placed much more emphasis on the protection of market transparency than on initial reward. Even though the absence of a reward in the case of open source licences may hypothetically be taken into consideration, the residual conflict with market transparency would remain in the scenarios of interest here.
138. See also the observations made on general legitimate expectations as a matter of market freedom above, para.1.E.I.1.
139. Art.4(a) of the Software Directive does not expressly require that short-lived copies occurring when the program is loaded must be characterised as reproductions. The provision leaves this to the courts of Member States. See T. Dreier, "Verletzung urheberrechtlich geschützter Software nach Umsetzung der EG-Richtlinie" [1993] GRUR 781. Therefore, Art.69d and Art.5(1) of the Software Directive similarly function to protect market transparency. See Berger, "Zum Erschöpfungsgrundsatz beim Vertrieb sogenannter OEM-Software" [1997] N.J.W. 300 at 301.
140. U. Loewenheim in Schricker, *Urheberrecht, Kommentar*, Art.69d, N.8.
141. Hence, clauses that aim to restrict such rights are void as a matter of Art.69d. The necessary minimum rights that accrue on the basis of Art.69d entail, for instance, the loading, running, display, transmission and storage of the program. See T. Dreier in Dreier and Schulze, *Urheberrechtsgesetz, Kommentar*, Art.69d, N.7.
142. See also L. Guibault and O. Van Dalen, *Unravelling the Myth of Open Source Licenses* (The Hague, 2005), p.87.
143. In that sense, Art.69d(1) would merely function so as to specify the rights contractually granted in case where there is doubt. See H. Haberstumpf in Lehmann, *Computersoftware, Rechtsschutz und Vertragsgestaltung*, Ch.II N.159.
144. cf. Baus, "Umgehung der Erschöpfungswirkung durch Zurückhaltung von Nutzungsrechten" [2002] M.M.R. 14 at 16; Hoeren and Schuhmacher, "Verwendungsbeschränkungen im Softwarevertrag" [2000] C.R. 137 at 139.
145. The BGH has initially taken the view that an uninterrupted chain of permissions must be proven in order to be able to use a computer program, see BGH [1994] GRUR 363, Holzhandelsprogramm. Software Directive. The preparatory materials on Art.69d make it clear, however, that protection is afforded to the acquirer and that Art.69d entails a core area of use rights that cannot be contractually restricted or modified, cf. Amtliche Begründung, Bundestags-Drucksache IV/270, p.12 and Software Directive, Recital 17; European Commission, COM (90) 509 final. See further *In re Program Error Elimination* [2000] GRUR 866 (BGH), (asserting that a contractual clause prohibiting the removal of a fault in a computer program was void under Art.69d as such, rather than the law on standard terms of business).
146. There may be different reasons why the initial licensing agreement between author and subsequent licensors may be terminated, the most important being the enforcement of certain statutory rights to revocation under general copyright contract law (Arts 41 and 42 of the Authors Right Act). The author (and, indeed, any other party in a licensing chain) may also terminate the agreement under general civil law. See, generally, Hoeren, "Die Kündigung von Softwareerstellungsverträgen und deren urheberrechtliche Auswirkung" [2005] C.R. 773.
147. See Recital 2 of the Computer Program Directive, expressly mentioning the aim to safeguard the investment--rather than the creativity--necessary for computer programs.
148. See further Westkamp, "Temporary Copying and Private Communications--the Creeping Evolution of Use and Access Rights in European Copyright Law" [2004] Geo. Wash. Int'l. LR 1057 at 1073 *et seq.*
149. Moritz, "Vervielfältigungsstück eines Programms und seine berechtigte Verwendung--§69d und die neueste BGH-Rechtsprechung" [2001] M.M.R. 94. Hence, what would render the use lawful is not the contractual agreement but the lawfulness of how the copy was acquired, such as by way of purchase.
150. Therefore, exhaustion does not necessarily have to be proven. According to the view expressed here, it would likewise be sufficient for the user to show that he had acquired the property in the carrier. Otherwise, the right-owner may reserve title in the carrier by prohibiting the resale or other transfer of property right in it. This would raise the general issue as to whether where there was, hypothetically, no exhaustion, it would be prudent to prohibit the user the necessary use of the software despite the fact that property on physical things can be acquired in good faith (Art.935 Civil Code).
151. The lawful acquirer means a person who purchased a program on a tangible carrier but arguably does not, as such, extend to the acquisition of a program online. The reason is that online delivery was largely unknown when the Directive evolved. Here, the complex problem of online exhaustion, discussed above, re-emerges.
152. The lawful-acquirer provision in the Software Directive therefore has a different effect to the similar provision in the Database Directive. The Database Directive protects the lawful user either where there is a contractual agreement relating to the access to a database and the purchaser or other acquirer of a copy of the database, and here arguably the position of the owner of database rights is stronger in cases where an online access agreement has been concluded. Software, however, is not transferred for access to information stored but in order to be used, so that the position of a person who cannot rely on the acquisition in a tangible format is the same as for a person who had purchased the software carrier.
153. Lehmann, "Das Urhebervertragsrecht der Softwareüberlassung" in Beier, Götting, Lehmann and Moufang (eds.), *Urhebervertragsrecht, Festschrift für Gerhard Schricker*, p.553.

154. In general, a contractual reservation of title may be upheld only if it affects uses not “necessary” within the meaning of Art.69d, such as multiple-use licences.
155. Art.69e declares any such clause void as a matter of contract law.
156. See Recital 17 CPD.
157. Hence, the use rights are assigned once the contract is concluded. These are two distinct acts. For the rights to be assigned, the user merely needs mutual consent. This consent, under the solution based on principles of copyright licensing law, only refers to acceptance of the proprietary transfer. At this point, the user acquires the rights to reproduce, modify and distribute the program absent of any restrictions. The restrictions may bind the first acquirer but not a subsequent bona fide purchaser, who will in turn.
158. In general, a licensee can only sublicense given that the owner consents, Art.34(1). This is irrespective of the nature of the licensing agreement as exclusive or non-exclusive.
159. One particularly knotty question then concerns the scope of Art.69d(1). Given that the bona fide acquirer is a lawful user on the basis of an enforceable contract, the question remains whether the licensing agreement may stipulate rights that go beyond the core scope of Art.69d(1)--the lawfulness of his use can then be said to originate from the contractual stipulations that were concluded in breach of the GPL. Otherwise, the lawful user may make necessary uses such as loading and installing the program.
160. In that sense, the conflict between innovation models such as open source and copyright is intersystemic. The root of the problem is the conflict between two social subsystems. See G. Teubner, *Law as an Autopoietic System*, pp.100, 111 *et seq.*

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